

# Is Business Ethics Getting Better? A Historical Perspective

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In the title of this address, I ask the question “Is business ethics getting better?” I will not talk about specific aspects of business but the practice of business as a whole. Some scholars have answered this question in terms of recent history. In 1961, Raymond C. Baumhart, who was then doctoral student at the Harvard Business School, did a study around the question “How Ethical are Businessmen?” He said that his research did not give a definitive answer to the question, but that the executives he surveyed all said that they wanted to improve the ethical business behavior of business people.<sup>1</sup> In 1977, Steven N. Brenner and Earl A. Molander updated and expanded Baumhart’s study to see if the ethics of business had changed since the Baumhart study.<sup>2</sup> Their research found that societal expectations of business were changing and in some areas, business had gotten better and in other areas, it remained the same. In a more recent essay, Ian Maitland suggests that the ethics of business is congruent with business cycles. He argues that business ethics deteriorate during boom times and improve during recessions.<sup>3</sup> A priori, this makes sense since it is human nature to not ask questions about why things are going well and to become introspective when things fall apart. Yet when you look at history writ large, we see that the answer to this question is not so simple.

There are moral problems inherent in business and human nature that make ethics a constant struggle, regardless of the business cycle or system of regulation. History offers us an early warning system about the ethical pitfalls of business and the tragedies that result from the moral failures of business. People have been aware of these problems for a long time. The ancient Greek historian Polybius said that Carthage fell because it had become a place where “nothing that leads to profit is considered disgraceful.”<sup>4</sup> People throughout history have also reminded us of the social benefits of business. As the Enlightenment philosopher Charles-Louis de Secondat Montesquieu notes, “[I]t is almost a general rule, that wherever we find agreeable manners, there commerce flourishes; and wherever there is commerce, there we meet with agreeable manners.”<sup>5</sup> In this address, I will look at a few of the things that history shows us about the potential moral pitfalls

of business as a means of explaining why I believe that history ought to be a part of the way that we teach business ethics in business schools.

Modernity is like a digital watch. Unlike an analogue watch, a digital watch does not show where we have been or where we are going. It only displays the present. History provides us with a place to stand and look at the present future. It offers a perspective on who we are, what we do, and why we do it. What history shows us about organizations and the people who run them is that the basic problems of business ethics are not new—only the cultural and technological contexts of these problems change over time. The reason for this is quite simple. People are the same and hence, the ethical challenges of human activities such as business and have not changed much either.

Business rests on the pursuit of self-interest, but at the same time requires self-control, constraints of self-interest, and as Max Weber shows us, delayed gratification.<sup>6</sup> Adam Smith tried to resolve this paradox with his notion of enlightened self-interest or self-interest that is tied to the interests of others in society.<sup>7</sup> The most ubiquitous moral principle in both the East and the West is the Golden Rule.<sup>8</sup> Both renditions of it—“do unto others as you would have others do unto you” and “do not do to others what you would not want them to do to you”—help people make the leap from their interests to the interests of others. The remarkable thing is that humanity is at least as successful at making this leap as it is at failing to do so; however, along the way they struggle. So let us look at just a few examples of the moral struggles that work, leadership, and business have presented to people throughout history.

## Some Ancient Perspectives

It is useful to begin with the writings of Ptah-hotep, who was a sage and vizier to the Egyptian pharaoh Djedkare Isesi of the 5th Dynasty. Written on papyrus, his book, *The Percepts of Ptah-Hotep*, is one of the oldest surviving paper books. It was written somewhere between 2450–2300 BCE.<sup>9</sup> In it, Ptah-hotep talks about a person’s responsibilities at work, which include adherence to duty, self-control, and transparency or vigilance

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against those who want to bribe or make secret deals. He even cautions against falling asleep on the job.

If you are employed in the *larit* [storehouse], stand or sit rather than walk about. Lay down rules for yourself from the first: not to absent yourself even when weariness overtakes you. Keep an eye on him who enters announcing that what he asks is secret; what is entrusted to you is above appreciation, and all contrary argument is a matter to be rejected. He is a god who penetrates into a place where no relaxation of the rules is made for the privileged.<sup>10</sup>

Ptah-hotep also takes note of the problems people face when they acquire wealth. Such people can start to think that they are better than others and forget where they came from.

If you have become great after having been little, if you have become rich after having been poor, when you are at the head of the city, know how not to take advantage of the fact that you have reached the first rank, harden not your heart because of your elevation; you are only administrator, the prefect, of the provisions which belong to Ptah. Put not behind you the neighbor who is like you; be unto him as a companion.<sup>11</sup>

Finally, like many sages who follow him, Ptah-hotep warns us about the dangers of wealth and power. Both can make people think they are special and no longer subject to the same rules as everyone else. Some leaders make the tragic mistake of thinking that power exempts them from responsibility, when in fact power usually gives them more responsibility to more people. As Ptah-hotep writes:

He who is placed in front, at the head of a large number of men, must be without reproach, and in spite of his power, never forget that there are laws. . . . He has attained to high honor, he must not, as is too often the case, be puffed up by his good fortune, but should consider the new duties which his rank imposes on him.<sup>12</sup>

Early on, people noticed that, in addition to the ethical challenges of having money and power, profit making based on anything other than trade for goods, might be problematic. As Aristotle notes, the amount of property needed for the good life is not unlimited because it is based on what we need. He goes on to say that the art of profit making and accumulating coin has no boundaries. It is based on insatiable wants.<sup>13</sup> Like other ancients, Aristotle is vehement in his distain for usury or what he calls "money breeding money." He writes: "The most hated sort [of money making], and with the greatest reason is usury, which makes a gain out of money itself, and not from the natural object of it [to trade products]."<sup>14</sup>

The early Romans also realized that business and the desire to make a profit sometimes lead to dishonest behavior. For example, in Cicero's *De Officiis*, written in 44 BCE, Cicero presents several cases where business people are tempted to deceive, such as this one illustrating the principle of *caveat emptor*:

Suppose an honest man sells a house because of some defects that he is aware of but others do not suspect. Suppose the house is unsanitary but is considered healthy;

suppose no one know that vermin can be seen in all the bedrooms, that the house is built of poor timber and quite dilapidated. The question is: if the seller does not tell these facts to a buyer and sells the house for much more than he thought he could get for it, did he act without justice and without honor?<sup>15</sup>

Like Aristotle, Cicero voiced suspicions about retailers. He says, "Those who buy from merchant and sell again immediately should also be thought of as demeaning themselves. For they would make not profit unless they told sufficient lies, and nothing is as dishonorable as a falsehood."<sup>16</sup> Cicero also notes the potential for business people to exploit the misery of others. He tells the story of a merchant who arrives at the gates of the famine-stricken city of Rhodes with a grain shipment. The merchant knows that other shipments are one day behind him, but the citizens of the city do not. Cicero raises the question, "Should the merchant conceal this fact from the buyers and charge a higher price?"<sup>17</sup> Even in ancient times, people saw that there was something wrong with charging the market price in times of disaster. Clearly, price gouging has been around for a long time, but so has compassionate behavior during disasters. Like Cicero, the contemporary philosopher Henk van Luijk called for a principle of decency in business, which he described this way: "if given the opportunity to improve the general welfare, people need solid reasons *not* to do it."<sup>18</sup>

## Work and Wages

Other ethical problems in business revolve around what people deserve to be paid for their work. As Jean Jacques Rousseau observed, "The human race fell from a golden age when they discovered that they could get advantage from the work of others."<sup>19</sup> You do not have to read Karl Marx to understand this problem. Nowadays this is not a matter of master and slave or serf, but a more sanitized "market view of labor." People get paid according to their market value, regardless of the social value of the work that they do. Furthermore, when unemployment is high, some employers take advantage of their employees by making them work long hours—sometimes for less pay. This is considered acceptable when the market determines wages and people fear losing their jobs.

Plato offers us a unique perspective on CEO compensation. He writes: "medicine provides health, and wage earning provides wages; house building provides a house and the wage earning that accompanies it provides a wage."<sup>20</sup> The same is true for leadership. The craft of leadership focuses on producing benefits for others, not just the leader. Plato concludes that like medicine and house building, the "craft" of leading requires different virtues from the craft of earning wages. The market acts as if the virtues of craft and wage earning are either the same or complementary. Corporations usually try to tie CEO compensation to performance, but as we have seen lately, CEOs can still earn high wages even when their companies do poorly or fail. In Plato's terms, some CEOs are good at making money for themselves, but not good at making money

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for the other stakeholders inside and outside of the company. The economist Robert Frank calls the belief that there are only a few talented individuals who can run companies and hence, deserve a disproportionate amount of wealth, the basis of a “winner-take-all society.”<sup>21</sup> Is this true? Perhaps in some cases, but Rakesh Khurana’s study of CEOs found that the highest paid CEOs were the most charismatic, but they did not produce the best earnings for their companies.<sup>22</sup> As Plato might say, they are better at wage earning than they are at leading and looking after the interest of their organizations.

Business has always had the ability to bring out the worst in people. In particular, the acquisitive and competitive aspects of it may tempt or encourage even the most disciplined person or group of people into one or more of the seven deadly sins—greed, envy, lust, pride, gluttony, anger and sloth. The first six are usually the basis of business scandals and financial disasters. The seventh, sloth, is the most interesting, because sloth is more than simple laziness—it is the vice of not caring. When businesses are feckless and uncaring, they can harm people and the environment. Business encourages virtues as well as vices. We know that it sparks creativity, generosity, kindness, discipline, and a number of other virtues. Like all activities that affect the lives of others, business is a practice that requires moral effort and fortitude. Certainly there are many businesses that try “doing well by doing good.”

### The Night Watch and CSR

One of my favorite paintings is Rembrandt’s *The Company of Frans Banning Cocq and Willem van Ruytenburch*, which is better known as *The Night Watch*. In some ways it is emblematic of the strengths and weaknesses of Corporate Social Responsibility (CSR). On the surface, it depicts a group of wealthy business people who, with Captain Cocq and Lieutenant Ruytenburch, are prepared to do their civic duty to defend the city if necessary. Cocq and the seventeen other people in the picture commissioned the painting in 1642. The curious thing about this very large (about 12 × 14 feet) canvas is that the actual night watch had disbanded years before it was painted, so the heroic group was actually more like a sporting club than a civic watch. Furthermore, Rembrandt’s unconventional composition depicts Cocq bathed in light, while others are only in partial view. Some of the merchants were not happy about this because they had each paid their share to be in the picture. Like the old German expression: “Do good and talk about it,” these merchants wanted to be physically and morally recognized. The story of the picture is emblematic of a potential problem with CSR. It is okay for businesses to advertise how they fill their social responsibilities as long as they do not let the “talking about it” misrepresent or supersede the actual “doing good.”

### On Tulips and Bubbles

Business ethics does not seem to be getting better in regard to the behavior that leads to speculative bubbles and international financial crises. Not long before Rembrandt finished the “Night Watch,” Tulip mania raged throughout Europe. Europe

had become enamored with the flower, and bulbs were traded on the market for huge sums of money. For example, at the tulip market’s peak in 1637, the Admiral van Enkhuijsen tulip traded for fifteen times the yearly wage of Amsterdam bricklayer.<sup>23</sup> The bulbs sold by weight and the unit of measure was the azen. Soon people stopped buying and selling actual tulip bulbs and began speculating on future price of an azen of bulbs. Merchants, craftsmen, and other ordinary citizens jumped into this futures market. When the bubble burst, both the wealthy and those of modest means were ruined.

In his prescient book *Extraordinary Popular Delusions and the Madness of Crowds* (1841), Charles MacKay offers a delightful commentary on irrational business behavior. He discusses “tulipomania” and the incident that gave us the term “speculative bubble.”<sup>24</sup> The word “bubble” was first used to describe the frenzied speculative investment in the South Sea Company and the subsequent crash of its stocks. In the early 1700s, the company had obtained a monopoly on trade in the South Seas from Spain. The Spanish gave the British an *assiento*, which was a permit that allowed them to sell slaves and other merchandise to Spanish colonies. In a scenario all too familiar today, the company started and/or did not correct rumors about the extraordinary profits they would make. Banks and other investors, ranging from government officials and aristocrats to middle class workers, invested and then lost large sums of money. If the British government had not stepped in and propped up the banks, the British banking system would have failed when the bubble burst. In 1720, British Parliament enacted the “Bubble Act” requiring all new joint stock companies to be incorporated by Act of Parliament or Royal Charter.

### History and Business Ethics

These are just a few examples of what history can tell us about the ethical challenges of engaging in business. Let us now turn to more a recent past and look at the use of history to teach ethics in a business school. When I was at the Harvard Business School (HBS), I had the pleasure of sitting in on a few of Alfred Chandler’s seminars on business history. I was just starting to do work in business ethics and I was struck by the inextricable relationship between business history and business ethics. At the time, a colleague named Jeffrey Cruikshank was writing a history of the Harvard Business School called, *A Delicate Experiment HBS 1908–1945*. We often talked about the research that he was doing for the book. It was fascinating because Cruikshank had access to old letters and documents dating back to the school’s inception in 1908.<sup>25</sup>

The early intellectual purpose of HBS was as “a school of applied economics, with incidental responsibilities toward law and engineering.”<sup>26</sup> One of the questions on the mind of Wallace Donham, the second dean of HBS was: Who is responsible for what in society? The 1920s was an era of industry and technological innovation. Donham was particularly concerned with the impact of technology on business and society. When the British philosopher Lord Alfred North Whitehead joined Harvard’s faculty in 1924, Donham used to have Saturday afternoon discussions with him about the human problems of what

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Whitehead called, "scientific materialism." As Cruikshank observes, Donham believed that society could no longer turn to the legal profession for "wise counselors" in these matters because the law had lost its independent status in the late 19th century when it became a servant to industry. Since Donham did not think that religion was likely to be reinstated to its position of moral authority, it fell to the business community to face what Donham saw as the critical social problem: the "control the consequences of scientific development."<sup>27</sup>

Donham wanted a business school curriculum that would prepare students to take on the responsibility of managing the moral impact of business and technology on society. The school's first approach to this was to introduce a history course—not a business ethics course—into the curriculum in 1927. A professor named Norman Gras taught the course. Gras began his class with cases from medieval history and later moved on to more contemporary ones. Gras said that the reason why the course was successful because "history placed business into human culture or recognized human culture in business."<sup>28</sup> But history did not seem to be enough preparation for business students to take on their social responsibilities. Gras wrote "The history of every profession contains plenty of evidence that it will be practically impossible to get great groups of men acting from pure altruism."<sup>29</sup> His hope for ethical progress was to have corporations internalize ethical standards and set the norms for the rest of society.

In 1928, HBS introduced what was perhaps the first business ethics course in an American business school. They hired a philosopher named Carl F. Taeusch from the University of Iowa to teach a second year elective in business ethics. I was able to buy an old library copy of the business ethics textbook that Taeusch wrote. It still had the record of borrowers in the back. There did not seem to be much interest in the book since it had only been checked out 24 times in 56 years. HBS students did not like Taeusch's business ethics course, in part because they thought it was too theoretical, so HBS dropped business ethics from the curriculum in 1935. One observer wrote: "It is the opinion of those who remember Dr. Taeusch's course on ethics that it was unsuccessful because it was perceived as 'Sunday School talk.' Indeed that effort and another in the mid 1930s appear to have set back the desire to tackle the subject at all."<sup>30</sup> The subject seems to disappear until 1958 when the school approved an elective course called "Business, Society and the Individual." Thirty years later, HBS introduced its first required module "Decision Making and Ethical Values."<sup>31</sup>

Despite business scandals, the Great Depression, and the recent collapse of the banking system (based on a mortgage bubble), some business schools are still reluctant to commit time and resources to business ethics courses—yet they spend lavishly on courses related to finance and accounting. When we look back at recent history, few would argue that financial disasters and business scandals were the result of people having poor quantitative skills. Going back to Plato, we might say that some business schools focus more on teaching student the craft of making money than on the craft of actually running a business or a sustainable business. Some of the business school graduates who drove their companies into the ground lacked

perspective and a historical understanding of the ethical traps inherent in business and human nature. Just think about how many well-educated people in the financial industry fell for "the madness of crowds."

## Conclusion

So, is business ethics getting better? Yes and no. My point is that you cannot answer this question in meaningful way unless you study history. That is why the Baumhart and Brenner/Molander studies are interesting, but not particularly insightful because their horizon is too narrow. Furthermore, as business historian Geoffrey Jones observes, "The loss of history has resulted in the spread of influential theories based on ill-informed understandings of the past."<sup>32</sup> For example, it is accepted wisdom that countries grow and prosper when they are open to foreign investment. But Jones notes that "this is an article of faith rather than proven by the historical evidence of the past."<sup>33</sup> Jones says that business historians have been marginalized or ignored by business schools and business scholars, despite that fact that early business historians have often identified areas that later become hot topics to business researchers such as entrepreneurship and globalization.

What does this mean for business ethics and business education? First, I think we should revisit the HBS approach of teaching ethics through history. Business schools might consider offering students the option of taking business ethics or business history to fill their course requirements. While ethics and history are different subjects, both compel students to think about the big questions concerning business and life. Second, history should be a part of any business ethics course. This is not difficult to do in classes that use case studies. By adding a historical context to a case, or comparing contemporary cases with similar events in the past, students gain a richer insight into the values and motivations that shape the behavior of people in business. And third, history is a fundamental part of leadership development. Business schools claim to educate leaders, but often they simply train managers. This is because they fail to consider a key element of leadership. Leadership requires a person to have a broad perspective on the world and an understanding of how it works. As Chester Bernard argues in his classic work, *The Functions of the Executive*, business leaders must possess "the art of sensing the whole."<sup>34</sup> History and the study of human values help cultivate this art in students, researchers, and practitioners. Perhaps that is what Carl Taeusch was trying to teach in his unpopular, "too theoretical," "Sunday School," business ethics class.

In closing, I leave you with Taeusch's eloquent statement about the place of philosophy and historical memory in the human enterprise of business:

The world is in need of two types of men that it does not have in great abundance: those who are experts in techniques, who contribute to ninety-five percent of perspiration necessary to carry on well the world's work, and the inspired five percent who are possessed of broad enough vision to see what there is to do. It is the latter who anticipate most of the possibilities and troubles of

humanity, and in this group the philosopher should be found. And the philosopher has functioned in the past, and can still contribute his share, by directing human efforts through the channels that a useful memory and a far-reaching imagination alone can discover or construct. And when we in this practical age insist that the philosopher come down from the clouds and the mountaintops, it is not necessary that he lose his sense of direction in the market place.<sup>35</sup>

## Notes

1. Raymond C. Baumhart, "How Ethical Are Businessmen?," *Harvard Business Review* (July–August 1961): 7–10, 12, 16, 19, 156–76.
2. Steven N. Brenner and Earl A. Molander, "Is the Ethics of Business Changing?" *Harvard Business Review*, January–February 1977 : 57–71.
3. Ian Maitland, "A Theory of the Ethical Business Cycle," *Business Ethics Quarterly* 20(4) (2010): 749–50.
4. Polybius, *The Histories*, trans. Robin Waterfield, ed. Brian McGing (New York: Oxford University Press, 2010), 410.
5. Charles de Montesquieu, *The Spirit of the Laws*, trans. Thomas Nugent (New York: The Free Press, 1970), 316.
6. Max Weber *The Protestant Ethic and the Spirit of Capitalism*, trans. Talcott Parsons (New York: W. W. Norton, 2009).
7. Adam Smith, *The Wealth of Nations* (New York: Penguin Books, 1970).
8. Jeffrey Wattles, *The Golden Rule* (New York: Oxford University Press, 1996).
9. The translator Miriam Lichtheim argues that while Ptah-hotep lived between 2450 BCE and 2300 BCE, the actual papyrus was not produced until 2300–2150 BCE.
10. Miriam Lichtheim, *Ancient Egyptian Literature: A Book of Readings, Volume 1: The Old and Middle Kingdoms* (Berkeley: University of California Press, 1973), 63.
11. *Ibid.*, 65.
12. *Ibid.*, 62.
13. Aristotle, *Nicomachean Ethics*, in *The Complete Works of Aristotle: The Revised Oxford Translation*, trans. W. D. Ross, ed. J. Barnes, vol. 2 (Princeton, N.J.: Princeton University Press, 1984), 1996.
14. *Ibid.*, 1997.
15. Marcus Tullius Cicero, *De Officiis*, trans. Harry G. Edinger (Indianapolis: The Library of Living Arts, 1974), 120.
16. *Ibid.*, 58.
17. *Ibid.*, 118.
18. Henk J. L. van Luijk, "Rights and Interests in a Participatory Market Society," *Business Ethics Quarterly* 4(1) (1994): 79–96.
19. Jean Jacques Rousseau, "A Discourse on a Subject Proposed by the Academy of Dijon: What Is the Origin of Inequality among Men, and Is It Authorized by Natural Law?"

*The Social Contract and Discourses*, trans. G.D.H. Cole (New York: E.P. Dutton, 1950).

20. Plato, *Republic*, trans. G.M.A. Grube (Indianapolis: Hackett Publishing, 1992), 22.
21. Robert Frank and Phillip J. Cook, *Winner-Take-All Society* (New York: Penguin, 1996).
22. Rahesh Khurana, *Searching for the Corporate Savior: The Irrational Quest for Charismatic CEOs* (Princeton, N.J.: Princeton University Press, 2002).
23. Ana Pavord, *The Tulip: The Story of a Flower that Has Made Men Mad* (New York: Bloomsbury Publishing, 1999).
24. Charles McKay, *Extraordinary Popular Delusions and the Madness of Crowds* (New York: Barnes & Noble, 2002), 5.
25. Note that the Wharton School is the oldest business school in the U.S. It was established in 1881.
26. Jeffrey L. Cruikshank, *A Delicate Experiment: The Harvard Business School from 1908–1945* (Boston: Harvard Business School Press, 1987), 155.
27. *Ibid.*
28. *Ibid.*, 168.
29. *Ibid.*
30. *Ibid.*
31. See Harvard Business School institutional Memory 1958 and 1988: [http://institutionalmemory.hbs.edu/topic/curriculum\\_and\\_courses.html](http://institutionalmemory.hbs.edu/topic/curriculum_and_courses.html).
32. Sean Silverthorne, "The Lessons of Business History: A Handbook," Harvard Business School: Working Knowledge, March 17, 2008, <http://hbswk.hbs.edu/item/5849.html>. In this interview Jones offers an eloquent explanation of the ways in which business history contributes to our understanding of business. Jones, a historian at HBS, also discusses the reasons why many business schools ignore business history. For an excellent source on business history, see his book: Geoffrey G. Jones and Jonathan Zeitlin, *Oxford Handbook of Business History* (New York: Oxford University Press, 2008).
33. Silverthorne, "The Lessons of Business History."
34. Chester I. Barnard, *The Functions of the Executive: 30th Anniversary Edition* (Cambridge, Mass.: Harvard University Press, 1971), 239.
35. Carl F. Taeusch, *Professional and Business Ethics* (New York: Henry Holt and Company, 1926), 3.

## Critical Thinking

1. What are the arguments presented for a market view of labor? Do you agree?
2. What is Plato's perspective on CEO compensation? Develop brief arguments pro and con for Plato's perspective.
3. Based on your reading and reflection of the article, is business ethics getting better? Take a position, find examples in current news articles, and use the current news articles to defend your position.