Business ethics has evolved through time and across disciplines into a discipline that is one of the most important topics in the field of business. For the historical development of business ethics, it is important to start with a definition of business ethics in a global context. We define business ethics from a managerial perspective as ‘decisions about what is right or wrong (acceptable or unacceptable) in the organizational context of planning and implementing business activities in a global business environment to benefit: organizational performance, individual achievement in the workplace, social acceptance and approval of peers and coworkers in the organization as well as responding to the needs and concerns of relevant internal and external stakeholders.’ The goal of proactive ethical organizations is to develop an ethical organizational culture. This requires strategies, systems, and procedures to ensure that the firm’s ethics and compliance program is in place and operating effectively with continuous assessment and improvement.

It is important to provide an initial overview of our managerial approach to understand the diverse and broad span of influences on the discipline. To engage in a historical overview of ethics would require the description of thousands of years of philosophy, social, cultural influences as well as the religious writings on this topic. We narrow the scope to describe the development of business ethics.
Framework for Understanding the Development of Business Ethics

Business ethics can be approached from many different perspectives. Business ethics can be approached from a normative (what should occur) or a descriptive perspective (what does occur). Business ethics has macro or societal dimensions as well as micro or firm level considerations and managerial dimensions. The context of the matrix in Figure 1 is similar to a conceptualization of the field of marketing by Hunt (1991).

FIGURE 1
Business Ethics Typologies

<table>
<thead>
<tr>
<th>Micro</th>
<th>Macro</th>
</tr>
</thead>
<tbody>
<tr>
<td>Values/Norms &amp; Principles For Organizational Decisions</td>
<td>Norms &amp; Principles and a Fair Economic System- i.e. Distributive Justice</td>
</tr>
<tr>
<td>Codes, Standards of Conduct, &amp; Compliance Systems for Organizations</td>
<td>Public Policy &amp; the Legalization of Business Ethics – i.e. U.S. Sarbanes Oxley Act, EU Privacy Laws</td>
</tr>
</tbody>
</table>

The scope of ethics is so broad that it affects almost every decision made in social interaction. Figure 1 is an attempt to narrow and focus our observations to typologies from an organizational perspective. Some definitions and discussion of this framework are necessary to properly interpret and provide a foundation for the understanding of the historical advancements of business ethics.
Normative decisions in an organizational culture relate to what can be, that is, what a business organization ought to consider in evaluating and improving their ethical conduct (Laczniak and Murphy, 2006). Normative decisions are based on deontological and teleological norms. Deontological norms involve hypernorms and local norms described by Donaldson and Dunfee (1994) as integrative social contracts. In deontological evaluation, the decision maker evaluates the inherent rightness or wrongness of the behavior implied by each alternative (Hunt and Vitell, 2006). Deontology assumes there is an absolute fixed norm, or expected behavior, to resolve an ethical issue. The decision is compared to predetermined norms that could relate to honesty, fairness, and trust or other norms of behavior.

Teleological decisions are based on four elements: 1.) perceived consequences at each decision for stakeholder groups, 2.) probability that the consequence will occur to each stakeholder group, 3.) desirability of each consequence, and 4.) importance of each stakeholder group (Hunt and Vitell, 2006). Teleology is often called consequentialism because individuals using teleology are basing decisions on philosophies, such as egoism and utilitarianism. Utilitarians believe that they are achieving the greatest benefit for all those affected by a decision. Therefore, teleological decisions are based on flexible decisions based on the consequences or the benefit to history.

Descriptive or positive perspectives attempt to describe, explain, predict, and understand business ethics activities and phenomena that actually exist (Hunt, 1991). In other words, a descriptive approach to business ethics examines what actually exists, not what organizations ought to do. In an organization, a descriptive perspective would examine policies on conflicts of interest, strategies, compliance systems, and various artifacts of ethical standards in the organization.
In Figure 1, micro is referred to as the business ethics conduct of individual units (organizations, business persons, or individuals, such as an entrepreneur). Macro refers to the impact of business decisions on the various stakeholders in society. For example, decisions made by an organization about the nutrition of food advertised and sold to children could affect the obesity rates the therefore the health and wellbeing of this important vulnerable group of consumers. The impact of the aggregation of organizations or the complete system of micro decisions on stakeholders creates macro business ethics issues that are often addressed in public policy and the formal institutionalization of business ethics through government (macro/descriptive).

**Business Ethics Before the 1960s**

The history of business ethics before 1960 depends on one’s perspective and objectives in tracing the concept. In this chapter, we are tracing the history of business ethics from the viewpoint of the development of business organizations, as referred to in Figure 1. Ethics as a field of thought has existed in religion and philosophy for thousands of years and has been applied to business activities in the same way ethical values and norms have been applied to everyday life.

Aristotle discussed economic activities, commerce, and trade. He makes normative judgments about greed, or the unnatural use of one’s capabilities, in the pursuit of wealth for its own sake. Aristotle provides the first recorded definition of justice and fair treatment of all parties in a transaction (Aristotle, 2000; DeGeorge, 2007). Fair treatment and justice have been a part of our social existence since the beginning of civilization.
Key philosophies that built a foundation for business ethics include John Locke’s classic defense of property as a natural right (Locke, “Property”). Adam Smith, often identified as the founder of capitalism created the concept of the ‘invisible hand’ and wrote about self-interest, however, he went on to explain that “The common good is associated with six psychological motives and that each individual has to produce for the common good with values such as prosperity, prudence, reason, sentiment, and promoting the happiness of mankind” (Smith, 2000). These values should be applied to the needs and concerns of stakeholders from a macro/normative perspective.

Other contributors to the foundation of business ethics include John Stuart Mill (1863), Immanuel Kant (1899), and G.W.F. Hegel (1820). These philosophers wrote on economic fairness, especially distributive justice (DeGeorge, 2007). Karl Marx deserves mention because he took an anti-capitalism position and claimed capitalism could be morally condemned because of exploitation.

Possibly the philosophy that had the most impact on understanding the macro/normative area of business ethics in the last fifty years is the contribution of John Rawls (1971). One perspective is the Rawls (1971) Difference Principle to maximize the minimum which holds that the worst off position should be made as well off as possible. It is discussed in this time period since the work of Rawls is linked to earlier philosophical discussions of distributive justice.

The Difference Principle

Although the Difference Principle is based on equalitarianism, this alternative principle permits inequalities in the distribution of goods and services only if those inequalities benefit the
worst-off members of society. This principle falls under Rawls (1971) proposed principles of justice:

1. Each person has an opportunity to a fully adequate set of equal basic rights, open to all participants; and in this scheme with equal opportunity guaranteed to bring fair value to all participants.

2. Social and economic inequalities are to satisfy two conditions: (a) They are to be attached to positions and offices open to all under conditions of fair equality of opportunity; and (b) they have to be to the greatest benefit of the least advantaged members of society (Rawls 1993, 5-6).

The difference principle is unique because Rawls links the justice of outcomes to specific ethical principles. The difference principle could be used as a defense for public policy to prevent unfair competition. For example, a health care program to cover all of the children in a society would assist in overcoming inequalities associated with class and income. The difference principle is connected to our discussion of stakeholder orientation in that it provides an ethical rationale for the problem of why organizations are obligated to consider claims of secondary stakeholders such as competitors, special interest groups, and vulnerable consumers such as children and the elderly.

Most of the contributors to business ethics before 1960 were philosophers that were concerned about the macro/normative relationships of business and society. Only in the next fifty years have we seen an emerging interest in the micro/normative and micro/descriptive components of business ethics.
Early Twentieth Century Interest in Business Ethics

Most contemporary timelines, such as the Ethics Resource Center Timeline (Figure 2) trace the history of business ethics issues since 1960. Although we will attempt to trace the history since 1960, it is appropriate to start by tracing the origins of business ethics thought over the past 100 years. The first managerial textbook on business ethics was *Business Ethics* by Frank Chapman Sharp and Phillip D. Fox (1937). The preface starts off with the statement “this book deals with the right and wrong of the transactions that take place in the competitive business world.” Based on our research, this was the first textbook based on organizational ethical decision making from a micro and macro descriptive perspective, in the world not just in the United States. The chapters in this book provide evidence that many of the topics of concern today were also of interest nearly 70 years ago.

**Figure 2**

**Business Ethics Timeline**

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Environmental issues</td>
<td>Employee militancy (us vs. them)</td>
<td>Bribery and illegal contracting practices</td>
<td>Unsafe work practices in third world countries</td>
<td>Emerging technology issues: cyber crime, privacy</td>
</tr>
<tr>
<td>Employer/employee tensions</td>
<td>Human rights issues (forced labor, low wages, work environment)</td>
<td>Deceptive advertising</td>
<td>Increased corporate liability for personal damage</td>
<td>Intellectual property theft</td>
</tr>
<tr>
<td>Civil rights &amp; race relation issues</td>
<td>Firms start practice of covering up not confronting issues</td>
<td>Financial fraud (savings &amp; loan scandals)</td>
<td>Financial mismanagement &amp; fraud</td>
<td>International corruption</td>
</tr>
</tbody>
</table>
Frank Chapman Sharp and his associate Philip G. Fox were the first true business ethics scholars to develop a textbook with the main focus on micro/descriptive concerns of business. Frank Chapman Sharp was a philosophy professor at the University of Wisconsin from 1893 until his retirement in 1936. He taught what is believed to be the first business ethics course in the world at the University of Wisconsin in 1913-14. Many of the first business courses on other topics, such as marketing originated at the University of Wisconsin during this time period.

In his preface, Sharp makes it clear that his book does not deal with “social and economic reform”, the focus, instead, is on “a small group of intimately related problems” with the ultimate goal of “the discovery of what modes of positive action the spirit of fairness requires in its application to business life” (Sharp and Fox, 1937). The book focuses on issues as they relate to court decisions and points out that the law and ethics are not identical. There are twenty chapters in the 1937 text on topics such as intentional misrepresentation, the limits of persuasion, loyalty to contracts, ethics of bargaining, property of ideas and social control through government agencies. This book captures most of the micro discipline of business ethics issues in the first half of the twentieth century. These issues include: fair trade, breach of contract, intangible property, deceptive selling and advertising, and truthful information about products. Methods to improve business ethics, such as the Better Business Bureaus and government agencies were discussed as ways to make ethical progress in the business world from a macro/descriptive perspective.
Business Ethics: 1960-2008

The time frame or 1960-2008 is selected to reflect almost fifty years of increasing interest and rapid change in business ethics. Also, this time period shaped the current managerial view of business ethics that is seen in global ethics programs in corporations. We will focus especially on the discussion of developments since the 1990 because this has been a critical period of time with respect to global ethics crises and public policy developments designed to institutionalize business ethics around the world.

Academic Contributions to Business Ethics

In the 1960s, the global interest in business ethics turned to causes. Most of these issues related to macro or societal issues. Therefore, this period of time focused on macro/normative issues and even a much larger emphasis on macro/descriptive issues (Ferrell, Fraedrich, and Ferrell, 2008, p. 12). Business ethics as an academic field emerged in the 1970s, with a few business ethics courses being taught (DeGeorge, 2007). A number of philosophers entered the business field and the textbook contributions of Norman Bowie, *Ethical Theory and Business*, Thomas Donaldson and Patricia Werhane, *Ethical Issues in Business: A Philosophical Perspective*, and other early textbooks by philosophers emerged, including Richard DeGeorge (1982) and Manual Vasquez (2002). Most of these books focused on business ethics from a moral philosophy and macro/normative perspective but micro issues were also examined. Most of these books focus on helping the individual with their ethical reasoning.

As philosophers developed macro/normative foundations for business ethics, a number of business professors were developing micro/descriptive research to understand organizational ethics (Ferrell and Weaver, 1978; Ferrell and Gresham, 1985). Ethical decision making models
evolved that linked normative and descriptive models. The Hunt and Vitell (1986) normative/descriptive model provides the first comprehensive inter-relationship between deontological and teleological ethical traditions linked to decision making in an organizational context (Hunt and Vitell, 2006). The Hunt and Vitell model starts when an individual encounters a situation and recognizes ethical content. The individual will have some idea of a limited number of potential solutions or alternatives, however, this subset of alternatives is not comprehensive. The individual then filters these alternative courses of action through two filters: 1.) Is this course of action ‘right’ or ‘wrong’? 2.) A series of questions are relevant here: a.) What will the impact be on stakeholders? b.) What is the probability these outcomes will occur for each stakeholder group? c.) How good or bad would each consequence be? d.) How important are each of the stakeholder groups that could be impacted? An individual’s ethical judgments are a function of applying norms to each of the possible behaviors in light of the potential ‘impact on’ and importance of each stakeholder. There are several personal characteristics which will influence decision making. Religion, personal value systems, strength of moral character, level of cognitive moral development, and ethical sensitivity will impact the decision making process. In addition, the organizational culture and social networks will influence the decision (Hunt and Vitell, 2005).

Additional ethical decision making models include Ferrell and Gresham (1985), Trevino (1986), and Jones (1991). While all of these models contributed new insights their major contribution was to provide a more concrete foundation for micro/descriptive research in business ethics. All of these models position co-workers and peers as influencing the ethical decision making process in an organizational context. As courses and textbooks were published in business ethics, the first managerial or micro/descriptive book since Sharp and Fox (1937) was
Ferrell and Fraedrich in 1990 (2008). This book defined business ethics as principles and standards that define business ethics in the world of business practice. Topics covered included ethical issues, ethical decision making, organizational culture and relationships, and ethics programs. There was a major shift from the individual to the organization.

The next major micro/descriptive book on business ethics was Linda K. Trevino and Katherine Nelson (1995), Managing Business Ethics: Straight Talk About How to Do it Right. This book addressed ethical decision making ethical problems of managers, organizational culture, as well as ethical and legal compliance from a managerial perspective. Both of these books continue to be among the most managerial focused books used in teaching business ethics.

During the 1980s, there were many centers of business ethics established in educational institutions (see www.e-businessethics.com). The leader and role model in center activities and leadership in bridging business and academic interests was the Bentley College, Center for Business Ethics in Boston, MA. This Center became a leader in assisting practitioners with business ethics programs and helped establish the Ethics and Compliance Officers Association which today is the largest ethics organization for managers of ethics programs in the U.S. There are many other organizations working globally to promote ethical conduct including the European Business Ethics Group, European Business Ethics Network, Ethical Corporation Europe, Australia Business Ethics Network, Business Ethics Institute of Malaysia, Business Ethics Network of Africa, Business Ethics Research Center, Business Roundtable Institute of Corporate Ethics, Canadian Centre for Ethics Corporate Policy, The Caux Round Table, The Coalition for Environmentally Responsible Economies, The Copenhagen Centre, Corporate Social Responsibility Europe, The European Business Campaign on Consumer Social Responsibility, Global Sullivan Principles, Hong Kong Ethics Development Centre, Institute of
Global Ethics, and International Business Ethics Network. Academic journals were established to publish both normative and descriptive research in business ethics. The *Journal of Business Ethics* was established in 1982, the *Business Ethics Quarterly* was established in 1991 and *Business Ethics: A European Review* was established in 1992. Other journals have evolved since then with many articles on business ethics also published in leading academic journals including functional areas such as marketing, management, accounting, and finance. In addition, trade books and trade publications on business ethics are widely available.

**Defense Industry Initiatives**

Perhaps the biggest impact on the practice of business ethics in the 1980s was the Defense Industry Initiatives. The Defense Industry Initiative on Business Ethics and Conduct (DII) was developed to guide corporate support for ethical conduct. In 1986 eighteen defense contractors drafted principles for guiding business ethics and conduct (Yuspeh, 1995). The organization has since grown to nearly fifty members. This effort established a method for discussing best practices and working tactics to link organizational practice and policy to successful ethical compliance. The DII includes six principles. First, DII supports codes of conduct and their widespread distribution. These codes of conduct must be understandable and provide details on more substantive areas. Second, member companies are expected to provide ethics training for their employees as well as continuous support between training periods. Third, defense contractors must create an open atmosphere in which employees feel comfortable reporting violations without fear of retribution. Fourth, companies need to perform extensive internal audits and develop effective internal reporting and voluntary disclosure plans. Fifth, DII insists that member companies preserve the integrity of the defense industry. Finally, member
companies must adopt a philosophy of public accountability (Hill, 1995). Most of the recommendations fall into the micro/descriptive area for organizational compliance standards.

**The Institutionalization of Business Ethics**

By 1990, business ethics was well established as an academic discipline. On the other hand, this was the beginning of the rapid acceptance of business ethics in organizations. The first developments occurred in the 1980s, but the institutionalization of business ethics through public policy moved rapidly through the 1990s and 2000s.

Wide spread and highly visible organizational misconduct and scandals such as Enron, WorldCom in the United States and in Europe, Parmalat (Italy), and Royal Ahold (Netherlands) have plagued global businesses. All four of these companies have engaged in massive accounting frauds to overstate their earnings and had operated unethical organizational cultures. Managers involved in channel stuffing, inventory shifting strategies, deceptive sales techniques, financial fraud, and other schemes to inflate earnings. Misconduct related to employees, suppliers, and consumers created discussions about right and wrong, as well as the appropriate legal consequences. Organizational ethics programs in the U.S. were developed in public corporations as ethics became more institutionalized by the Federal Sentencing Guidelines for Organizations, especially the 2004 amendment and the Sarbanes-Oxley Act (2002). These public policy approaches to institutionalization represent a macro/descriptive approach to business ethics.

In Europe, the European Union has a strong Directive on Data Protection (1995) and anti-competitive legislation that is being strictly enforced to prevent price fixing. For example, British consumer affairs watchdog groups have triggered a government investigation of price fixing at food &
package goods firms including Procter & Gamble, Reckitt Benckiser, Mars, Unilever, & Tesco PLC (Wall Street Journal, April 29, 2008).

The Federal Sentencing Guidelines for Organizations (FSGO), approved by Congress in November 1991, set the tone for organizational ethical compliance programs in the 1990s. The guidelines, which were based on the six principles of the DII, broke new ground by codifying into law incentives to reward organizations for taking action to prevent misconduct such as developing effective internal legal and ethical compliance programs (Conaboy, 1995) Provisions in the guidelines mitigate penalties for businesses that strive to root out misconduct and establish high ethical and legal standards (United States Code Service, 1995). On the other hand, under FSGO, if a company lacks an effective ethical compliance program and its employees violate the law, it can incur severe penalties. The guidelines focus on firms taking action to prevent and detect business misconduct in cooperation with government regulation. At the heart of the FSGO is the carrot-and-stick approach: By taking preventive action against misconduct, a company may avoid onerous penalties should a violation occur. A mechanical approach using legalistic logic will not suffice to avert serious penalties. The company must develop corporate values, enforce its own code of ethics, and strive to prevent misconduct.

In the 1990s, ethical and legal misconduct became more widespread on a global basis. Issues such as financial mismanagement contributed to the Asian financial crisis. Reports of fraud in financial reporting and issues related to sexual harassment and discrimination were widespread. This period was also known as a time of excessive executive greed with exorbitant pay packages associated with mergers and acquisitions. Pay was not effectively tied to performance and many non-performing CEOs found themselves ousted and financially comfortable as a result.
of their lavish severance packages. In the 2000s, the interest in business ethics has accelerated rapidly. Such abuses increased public and political demands to improve ethical standards in business. In a survey of twenty thousand people across twenty countries, trust in global companies has declined significantly (Ferrell, Fraedrich, Ferrell, 2008).

To address the loss of confidence in financial reporting and corporate ethics, the U.S. Congress in 2002 passed the Sarbanes–Oxley Act, the most far-reaching change in organizational control and accounting regulations since the U.S. Securities and Exchange Act of 1934. The new law made securities fraud a criminal offense and stiffened penalties for corporate fraud. It also created an accounting oversight board that requires corporations to establish codes of ethics for financial reporting and to develop greater transparency in financial reports to investors and other interested parties. Additionally, the law requires top executives to sign off on their firms’ financial reports, and they risk fines and long prison sentences if they misrepresent their companies’ financial position. The legislation further requires company executives to disclose stock sales immediately and prohibits companies from giving loans to top managers (CNN, 2002).

The 2004 amendment to the FSGO requires that a business’s governing authority be well informed about its ethics program with respect to content, implementation, and effectiveness. This places the responsibility squarely on the shoulders of the firm’s leadership, usually the board of directors. The board is required to oversee the discovery of risks and to design, implement, and modify approaches to deal with those risks. The Sarbanes–Oxley Act and the FSGO have institutionalized the need to discover and address ethical and legal risk. Top management and the board of directors of a corporation are accountable for discovering risk associated with ethical conduct. Such specific industries as the public sector, energy and
chemicals, health care, insurance, and retail have to discover the unique risk associated with their operations and develop an ethics program to prevent ethical misconduct before it creates a crisis. Most firms are developing formal and informal mechanisms to have interactive communication and transparency about issues associated with the risk of misconduct. Business leaders should view that their greatest danger is not discovering serious misconduct or illegal activities somewhere in the organization (Ferrell, Fraedrich and Ferrell, 2008). It is important that the shift has been away from trust in individuals to do the right thing based on moral judgment to formal ethics programs based on values and culture.

CONCLUSIONS

The history of business ethics provides an important background for understanding business ethics today. The topic is becoming more important in the academic study of business and nearly every public corporation has developed at least some elements of an ethics program (primarily based on the Defense Industry Initiatives and resulting Federal Sentencing Guidelines for Organizations).

This perspective on the history of business ethics focuses on the micro/macro, as well as normative/descriptive impact of ethical decision making. The collective or aggregate ethical decisions of organizations affect key stakeholders in society. On the other hand, one company’s ethical decisions such as Enron or Royal Ahold, can damage shareholders, employees, and communities on a macro level.

There is much evidence that good ethics is good business. The Ethics and Compliance Officers Association is funding a major study to determine relationships between effective ethics programs and the bottom line. This study is being conducted by economists at the University of
Chicago. Already there is much academic research that supports this hypothesis. The growth of
ethics officers and ethics programs in organizations has occurred worldwide with strong support
from stakeholders.

The European Business Ethics Forum provides training events exclusively for managers
responsible for ethics, compliance, and business conduct. This organization works with a broad
European and U.S. peer group of corporate managers in organizations including: European
Business Ethics Network, the Ethics and Compliance Officer Association-U.S., and the Institute
of Business Ethics-U.K. Asian companies are also developing comprehensive ethics programs
and attending conferences, workshops, and forums in the U.S. and Europe. The Bank of Tokyo
has been recognized by the U.S. Sentencing Commission as having a model corporate ethics and
compliance program.

There is still much to be done to understand and improve business ethics globally. The
academic community can support business ethics with more research to determine the role of
both the individual and organizational culture in building an effective ethics program.
Businesses need to remain open to learning more about how to build an effective ethics initiative
and understanding the importance of managing the internal organizational culture to maintain a
commitment to integrity and transparency. Personal character and ethical leadership will
continue to be key ingredients to improving business ethics in the future.


Hegel, Georg Wilhelm Friedrich (1820) Elements of the Philosophy of Right.


Kant, Immanuel (1899) *Critique of Pure Reason*.


Mill, John Stuart (1863) *Utilitarianism*.


