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MAY 23 1952

JHW	MAR 22 '52	St. Louis

March 22, 1952.

P14 ack by phone 3/24/52

Dr. Joseph H. Willits,  
The Rockefeller Foundation,  
49 West 9th Street,  
New York 20, N.Y.

Dear Joe:-

I should like to try again. I plan now to come to New York this next Wednesday, March 26th, and I should like to see you. I would arrive about Noon, after catching (I hope) an 8 o'clock train from Boston. I have few commitments that afternoon, but expect to take dinner with a cousin who is visiting the city from her home in North Dakota. Anyway, I'll call your office after I reach your big city.

I should like to talk to you on a number of things -- not merely the Harvard application, but my plan for setting up the Research Committee in a new, democratic fashion, and my efforts to lure Hiram Davis into a novel avenue of research, for which perhaps the Committee could help to raise funds.

I enclose a document. This is one that I spoke of earlier, a sort of alternative to that which I transmitted to you ten days ago. At all events, I should be glad of your opinion regarding this project. You will recognize some of it -- altered perhaps at points to meet your previous criticisms -- but the 'case' study is new. And I would remark that we have selected the 'case' of scientific management rather deliberately -- partly because that area is relatively free of moral overtones, partly because the material on scientific management is comparatively abundant, and partly because the area lends itself to the sort of international cultural approach that we have emphasized in our Research Center in Entrepreneurial History. (By the way, just to prevent you from getting unnecessarily confused, this specific application, if ever submitted, would come in the name of this Research Center -- not the Committee.)

Hoping to be able to catch up with you soon, and particularly this coming Wednesday, I am,

Cordially yours,

*Arthur H. Cole*  
Arthur H. Cole.

## BUSINESS ETHICS IN THE LIGHT OF SOCIAL SCIENCE

From the mediaeval period when Thomas Aquinas endeavored to elaborate the doctrine of the "just" price, or - in England - William Scott in the first book specifically on retail business (1635) tried to combine "trading justly, pleasingly, profitably," clergy and laity have never ceased to seek some basis for the appraisal of businessmen's activities. Frequently the criteria have been sought in the Scriptures, or, if they seemed inadequate, then in some body of general ethical principles which should presumably direct the actions of all men - the lawyer and the doctor as well as the businessman.

In recent decades the problems that writers have seen to be pertinent to the area of business ethics have come to be broadened: not merely short weight and fraudulent advertising, but changes in commercial organization or practices, size of enterprise, and the like. So wide-ranging, indeed, have the elements become that those who attack the subject speak currently only of "businessmen's responsibilities."

As yet, however, no real effort has been made to bring to bear upon the problem of defining and exploring business ethics the resources of the social sciences as a body: economics, sociology, etc., as well as the accumulated data of business administration. This is the task to which the Research Center in Entrepreneurial History proposes to devote itself, and for the accomplishment of which it asks financial assistance from the Foundation.

During the past few years the Research Center has undertaken a series of investigations into the changing characteristics of the businessman over the decades. It has likewise examined businessmen's behavior - through time - in varied cultural contexts from 19th-century France to 20th-century Brazil, and in the United States from colonial days to the present. The Center possesses, therefore, the basic data by which a scientific study of business ethics may be fruitfully directed. Furthermore, in carrying through these investigations, the Center has faced, and in part at least solved, the problem of achieving workable cooperation between the various social science disciplines. The task has not been an easy one, but sufficient success has been achieved to justify confidence that an inquiry into business ethics can be tackled intelligently and effectively. And lastly, the Center's contacts with the Harvard Business School Faculty (and library resources) have grown so close that it may benefit from advice (and data) to be secured only in that institution.

The first and over-riding requirement for systematic research into the changing "ethics" of businessmen is the elaboration of a conceptual apparatus that will both define the proper area of inquiry and point to the type of empirical investigation that will illustrate the validity of

that apparatus. To the summary description of such a set of concepts and hypotheses the following paragraphs are devoted.

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In using the phrase "business ethics" we do not assume that there has ever existed in any place or period an explicit code of ethical precepts to guide businessmen in their everyday transactions, such as, for example, is provided for physicians by the Hippocratic oath. Far less do we take it for granted that the elaboration of such a formal code, whether by businessmen themselves or by social scientists, would necessarily be desirable. Above all, we do not conceive of business ethics as consisting in the logical implications that can or ought to be derived from the ethical preferences of the research worker. By a study of business ethics we mean, quite simply, a study of what businessmen have taken to be, at different times and places, right or wrong conduct for them to pursue as businessmen.

As historians, we have no direct access to business ethics as such. The evidence which the historian has to work with is evidence of actions, and the conclusions at which he seeks to arrive must be derived from analyses of actions. Starting from actions, he has to get at the value systems, the standards by which courses of action are chosen as right or wrong, in a word the ethics which, often implicit and unconsidered, underlie actions.

An analysis of this type can draw upon a considerable body of sociological theory, much of it already in operational terms, which stands ready to supply the necessary concepts or tools of inquiry and to suggest probably fruitful hypotheses. In terms of this general body of theory, an inquiry into the history of business ethics is an investigation of how people playing certain roles in a social structure learn certain attitudes appropriate to those roles and of how these attitudes change over time in response to the changing social sanctions which impinge upon them.

Our procedure is based on three postulates:

1. The value systems of businessmen reflect and are consistent with the functional requirements of the roles they occupy in the social structure.
2. No business practice can persist unless in the long run it is consistent with the value system of the businessmen concerned.
3. Every volitional act of a businessman is, in one aspect, an ethical decision, reflecting (either as conformity to or departure from) the norms of behavior which he regards as appropriate for him in a given social situation.\*

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\* Thus we do not agree with those writers who hold that some, perhaps most, business decisions are ethically neutral. From our point of view every



A study of business ethics is therefore a study of the norms of behavior which businessmen accept as appropriate guides to conduct. It is, so to speak, a study of the moral bench-marks of business life. A historical study of business ethics is one which attempts to identify these bench-marks, trace changes in them, and discover how these changes were brought about. Our task is two-fold: (i) to identify these stable patterns of actions which we term business practices; (ii) to locate and define the system of values, or ethics, which made these practices what they were.

As we have already pointed out, the historian's raw material consists fundamentally of records of actions. These actions can, however, be analyzed in two different ways and can be made to produce evidence of two different sorts. Every action can be regarded simply as an event - as something which was done. Or it can be regarded as the result of a decision or choice, and therefore as the end-product of a process of valuation. Concretely, the evidence available for this inquiry falls into two categories:

1. evidence of what particular businessmen or sets of businessmen have done or tried to do.
2. evidence of what other people have thought, said, and done about 1.

The first class of evidence we shall use primarily as evidence of the norms of behavior actually accepted and approved of by the particular set of businessmen we are investigating. That is to say, it bears directly on the question of what business ethics were. The second class of evidence we shall use as evidence of the norms of behavior which other people thought these businessmen ought to accept and approve of. That is to say, it bears on the social valuations of what these businessmen did, and therefore on the factors in the situation tending to favor or discourage change. The basic problem of our research is the investigation of the functional relationships between these two sets of social norms. We approach this problem with a certain preliminary hypothesis in mind, viz.:

Whenever a change in the norms of behavior characteristic of a certain set of businessmen takes place, there has previously developed a discrepancy between the actions of these businessmen and the norms

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business action is goal-oriented and therefore implies the acceptance of certain goals as good, right, and proper, and the rejection of others as bad, wrong, and improper. Business life, from this point of view, is impregnated with valuations of means and ends, and therefore with questions of ethics - of what ought to be done. This is quite apart from the question of how decisions are rationalized by businessmen themselves and by others.

of business behavior sanctioned and approved of by at least one of the social groups involved.

It will be convenient at this point to introduce a conceptual distinction between two types of groups, which we may call actor groups and censor groups. When we speak of the norms of behavior of an actor group we refer (in this inquiry) to patterns of behavior typical of a certain set of businessmen, in their business roles. When we speak of the norms of business behavior sanctioned by a censor group, we refer to the fact that each social group involved in a business relationship disapproves of some patterns of business behavior and approves of others. What our preliminary hypothesis instructs us to do is to compare the norms of behavior of the actor group with the norms of behavior sanctioned by the censor group. That is to say, we are instructed to compare what the actor group did or tried to do with what the censor groups thought the actor group ought to do.

This process of comparison is the first step in our analysis. The second step is to explore how actor group and censor groups interacted. We wish to investigate, first, whether, and in what respects, and how frequently, and to what degree, the actions of the actor group deviated from the patterns of behavior sanctioned by the censor groups; then the measures taken by the various censor groups to make their attitudes effective; and finally the effectiveness of these measures in changing business ethics and practice. By this procedure we expect to be able to establish how and by what processes business ethics changed at the times and in the ways they did.

Clearly the usefulness of this procedure depends very largely upon how we choose our actor and censor groups. There are certain theoretical restrictions upon the way in which we make this choice. In the first place, it is essential that our actor and censor groups exhibit a certain minimum degree of homogeneity in their attitudes and behavior. They must be true groups, in the sociological sense: a number of people who interacted and communicated with each other more or less continuously and shared certain common values. For example, it is not permissible to take a London banker of the 1820's and a New York banker of the 1950's, lump them together as "bankers," and then compare what they did with what someone else thought bankers ought to do. The two bankers do not belong to the same actor group: there was no communication or interaction between them. Similarly, it is not permissible to take a labor union boss of the present day and a member of the National Association of Manufacturers, also of the present day, and place them in the same censor group, since two such differently-situated individuals presumably would have different ethical standards and different beliefs as to how a businessman ought to behave.

Secondly, for each comparison we wish to make, it is essential that there must be interaction and communication between actor group and censor group. If this is not the case, there is no point in drawing any comparison between what the one group did and what the other group thought the

first group ought to do, because in terms of action the two groups had no point of contact. For example, to compare the behavior of a money-lender in a Russian village in 1880 with the ethical precepts of a lecturer in the Harvard Business School in 1952 might be a fascinating intellectual exercise, but it would be no more useful - it would throw no more light on the ways in which human societies change - than a game of chess.

There are also certain practical considerations to be borne in mind. We may dismiss with scant consideration the idea of dealing with "businessmen in general" and "society in general." Such a procedure would undoubtedly lead to a blurring-over of significant differences both in patterns of behavior and in group attitudes. But at the opposite extreme, it would be impractical to attempt to deal, on the one hand, with a myriad of individual businessmen, each of whom acted in a way different in some respects from the actions of any other businessmen, and, on the other, with a myriad of tiny social groups, each of whom had in some respects different attitudes toward the actions of businessmen and different methods of making these attitudes effective. Some sort of approximation is necessary if the inquiry is to be manageable at all.

What is required is a pilot study which will enable us to test the efficiency of our methods and the richness of our raw material. We need a case which is explicitly dynamic in its context; which displays the interaction of different groups in relation to the development of changes in business ethics; which minimizes the effect of generalized biases deriving from the research worker's personal ideals; which gives promise of affording an ample supply of both types of evidence referred to; and which, while manageable in scope and capable of completion in a relatively short time, deals with matters of intrinsic interest and importance.

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It is clear that many of the topics commonly thought of as involving business ethics are not suitable for our present purposes. An inquiry into the changing social definitions of business honesty, even if confined to the United States, would undoubtedly prove too ambitious. Similarly, investigations of the ethics of slavery or of labor-management relations, regarded as business practices, while probably highly enlightening, would be too broad in scope and unwieldy in respect of raw materials. These large-scale projects, in fact, are matters for systematic research carried out over a period of years by an experienced team of investigators fully confident of their methods and of the validity of their theories. They are not suitable for use in a pilot study. We must look for something smaller and more manageable. We require a "case" which is more or less a unitary episode; one which has a definite starting-point and which represented something in the nature of a break with what had gone before.

Such a case can be found, and the one which we propose possesses unique



advantages as a pilot study. It has, however, one peculiarity, namely that it is not at all the kind of thing which is commonly regarded as involving questions of business ethics. This we consider a positive asset: one of the things we want to do is to demonstrate that ethics, values, and accepted standards of behavior are implicit in every item of business practice.

The pilot study which we propose to undertake is an investigation of the introduction of Scientific Management into business life in America and elsewhere primarily in the period from 1900 to the present day. We intend to examine the Scientific Management movement from the point of view of business ethics: that is, as an attempt by certain interested parties to evolve, introduce, and popularize a radically new system of organizing the exercise of authority in industrial units. We wish to investigate the origin of this new system, determine its impact on business life in America and Europe, evaluate the resistances which it met, and trace the effects of these resistances upon the development of the system and upon its incorporation into standard business practice.

It is clear that this proposed investigation fulfils admirably the requirements which we set up earlier. It has a definite starting-point: the experiments conducted by Frederick W. Taylor at the Midvale Steel Company from 1885 onward. It represented a radical departure from previous practice, and change took place rapidly enough to excite considerable and wide-spread comment. The actor group can be clearly identified: those business executives who adopted or tried to adopt Taylor's system. The primary censor groups seem to stand out sharply: Taylor and his disciples, the labor unions, the government, and the substantial number of businessmen who were violently opposed to Taylorism. The area of interaction is clearly defined: those changes in the actions and attitudes of managers which were essential to the functioning of Taylor's system. It lends itself to inter-cultural comparisons, for the impact of Taylorism was significantly different in France, Germany, the United States, and Great Britain. A considerable literature exists to provide the necessary evidence. And the growth of Scientific Management from crude Taylorism down to the highly sophisticated "human engineering" of the present day is an important element in entrepreneurial history.

Ask any moderately well-informed person today what he means by Taylorism, and he will talk about time and motion study, speed-ups, and standardization. The stereotype of Taylorism, that is to say, runs in terms of certain techniques of production control, rather mechanical in nature, and taking no account of what we term the "human factor," meaning by that the attitudes and values of the workman and the executive. From the historical point of view nothing could be more inaccurate. No one insisted more vehemently than Taylor himself that what scientific Management meant was not speed-ups nor even time study, but nothing less than a revolution in the thinking and attitudes of managers and workers. Copley, Taylor's biographer, puts the matter succinctly: "Taylor was forced to build an ethical system of management when he started out to build a scientific one."

And Taylor himself, when testifying before a House Committee in 1912, was equally explicit:

In its essence, scientific management involves a complete mental revolution on the part of the workingman . . . a complete mental revolution on the part of these men as to their duties to their work, toward their fellow men, and toward their employers. And it involves the equally complete mental revolution on the part of those on the management's side . . . as to their duties toward their fellow workers in the management, toward their workmen, and toward all their daily problems. And without this complete mental revolution on both sides, scientific management does not exist.

It was just because Scientific Management entailed this "mental revolution" - which we may more properly describe as a redefinition of the ethics of authority in business - that Taylor met so much opposition, not only from labor, but also from management. Taylorism was a technique for disciplining managers, as much as a means of increasing the productivity of workmen.

The fact of the matter is that Scientific Management was viewed and evaluated in ethical terms, not only by Taylor and his disciples, but also in the beginning by everyone who came in contact with it. What was involved was nothing less than an attempt to redefine what it should mean to be a worker and what it should mean to be an employer. Taylorism, which Lenin in Pravda castigated as "the most refined cruelty of bourgeois exploitation," and which Commissioner Lane of the F.C.C. described as "a sort of substitute for religion," was from the start a revolutionary doctrine which has left a permanent impress on American thought.

We feel confident that the introduction and development of Scientific Management can be analyzed as a case study in business ethics by means of the theoretical apparatus presented here. We believe, too, that such an inquiry would be of substantial interest and value, not only to historians, but also to businessmen and business analysts, for the revolution in business thinking and behavior which Taylor began is still with us. The names change, the emphasis alters, clearer recognition is given to the necessity for manipulating attitudes and values, but the ethical problem remains. Whose values shall prevail? What are the "correct" attitudes and who shall determine them? What are the ethics of authority in business? It may be that the historian, by the nature of his craft, can himself provide no satisfactory answer to these questions; but he can at least illuminate their practical implications and, with the wisdom of hindsight, explore how men have gone about answering them in the past.



The Research Center has the personnel available for and interested in this avenue of novel research. Dr. Hugh G. J. Aitken would be in charge of the inquiry, while Professors Leland H. Jenks and Arthur H. Cole would serve as counselors and critics. We believe that the pilot study above outlined can be carried through in a two-year period. Moreover, we estimate that it can be completed at a cost of approximately \$25,000.

Because of a number of features — the importance of freeing the subject of "business ethics" and "businessmen's responsibilities" from a plethora of hazy notions, the opportunity of attacking with sociological tools a problem of interest to students of business administration, the need of a historical survey of Scientific Management, and the chance in filling this need to include an inter-cultural comparison — the Center asks the grant to it of \$25,000. to be available for expenditure over the academic years 1952-53 and 1953-54.

Submitted on behalf of the Research Center in Entrepreneurial History.

Arthur H. Cole  
Executive Director