

Evolution of the Concept of Business Ethics: From Classical Theories to the ESG Paradigm

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Abstract. *The article explores the historical evolution of business ethics from classical philosophical foundations to the contemporary ESG paradigm (Environmental, Social, Governance). Special attention is paid to the transformation of ethical concepts into practical standards of sustainable development and corporate governance.*

Keywords: *business ethics, corporate social responsibility, sustainability, ESG paradigm, governance.*

Анотація. У статті досліджується історична еволюція бізнес-етики від класичних філософських засад до сучасної парадигми ESG (Environmental, Social, Governance). Особливу увагу приділено трансформації етичних концептів у практичні стандарти сталого розвитку та корпоративного управління.

Ключові слова: бізнес-етика, корпоративна соціальна відповідальність, сталий розвиток, парадигма ESG, управління.

Problem Statement. The growing interconnection between business, society, and the natural environment demonstrates that ethical issues are no longer peripheral but central to corporate strategy. Modern corporations are expected not only to generate profits but also to create long-term value for stakeholders and society as a whole. The ESG paradigm represents a new framework that links business ethics with global challenges such as climate change, social inequality, and governance crises.

Classical theories of ethics were presented by philosophers and economists, including I. Kant, A. Smith, and J.S. Mill, who emphasized the role of morality in economic activity. In the 20th century, the concept of Corporate Social Responsibility (CSR), developed by H.R. Bowen and A.B. Carroll, became a bridge between abstract ethical theory and applied corporate practice. Later, stakeholder theory (Freeman) highlighted the importance of balancing diverse interests in business decision-making.

Recent decades have witnessed a transition to ESG-based models, supported by global initiatives such as the UN Global Compact (2000), the OECD Guidelines for Multinational Enterprises, and sustainability reporting frameworks like the Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB). Scholars such as Eccles and Klimenko (2019) argue that ESG has transformed into a decisive factor in investment and corporate governance. Nevertheless, methodological challenges remain in terms of measuring ESG performance and preventing superficial compliance (“greenwashing”).

The aim of this paper is to analyse the transformation of the concept of business ethics from classical theories to the ESG paradigm, to explore its theoretical underpinnings and practical applications, and to outline future perspectives for integrating ESG standards in global and transitional economies.

Main Research Content. The development of business ethics reflects a long and complex intellectual and practical evolution, beginning with philosophical considerations about morality in economic activity and culminating in contemporary standards of sustainable corporate governance. At its earliest stage, business ethics was closely associated with philosophical and economic thought, where the central concern was the reconciliation of profit-making with justice and social harmony. Thinkers such as Aristotle addressed the distinction between natural economic activity, aimed at household well-being, and excessive accumulation of wealth, which he considered morally questionable. During the Enlightenment, Adam Smith, in *The Theory of Moral Sentiments* (1759), argued that market functioning required trust, sympathy, and moral constraints. Later, philosophers such as Immanuel Kant, with his deontological perspective, and John Stuart Mill, with his utilitarian view, offered systematic moral frameworks that also influenced the understanding of economic and business behaviour. These theoretical foundations created an intellectual background for capitalism, in which the pursuit of profit was moderated by the recognition of ethical obligations [4].

In the twentieth century, the expansion of industrialization, globalization, and the growing power of corporations highlighted the need for a more structured approach to the ethical responsibilities of business. The concept of Corporate Social Responsibility (CSR) emerged as a response to social expectations regarding the role of enterprises beyond their economic function. Howard Bowen's work *Social Responsibilities of the Businessman* (1953) was one of the first systematic attempts to define business responsibility in terms of its broader social consequences [1]. Later, Archie Carroll introduced his well-known "CSR Pyramid," which identified four levels

of responsibility: economic, legal, ethical, and philanthropic [2]. This framework emphasized that profitability was only the foundation of a broader responsibility structure, which also required compliance with laws, adherence to moral norms, and voluntary contribution to social welfare. At the same time, R. Edward Freeman's stakeholder theory further transformed CSR thinking by underlining that managers must consider not only the interests of shareholders but also those of employees, consumers, suppliers, communities, and governments [3]. These approaches marked the transition of business ethics from philosophical abstraction to practical managerial tools. However, despite its influence, CSR was often criticized for being largely symbolic, lacking precise measurement mechanisms, and remaining voluntary rather than binding.

At the beginning of the twenty-first century, global challenges such as climate change, resource depletion, rising inequality, and corporate governance crises made the limitations of traditional CSR more apparent. The emergence of the ESG paradigm — Environmental, Social, and Governance — was a qualitative step forward in the development of business ethics. Unlike CSR, ESG introduced measurable and reportable standards, closely linked to risk management and investment decision-making [5]. The environmental dimension focuses on minimizing ecological impact, reducing carbon emissions, and adopting innovative practices such as renewable energy and circular economy models. The social dimension encompasses respect for human rights, fair labour conditions, workplace diversity, and contributions to community development. The governance dimension emphasizes transparency, board independence, anti-corruption measures, and effective risk control systems. By integrating these three components, ESG provides a holistic vision of corporate responsibility that links ethical imperatives to economic performance.

The practical significance of ESG is evidenced by its rapid institutionalization in international business. Initiatives such as the United Nations Global Compact [6], the OECD Guidelines for Multinational

Enterprises [7], and reporting frameworks like the Global Reporting Initiative (GRI) [8] and Sustainability Accounting Standards Board (SASB) provide companies with structured methodologies for implementing and disclosing ESG practices. Moreover, financial markets increasingly consider ESG indicators as critical to investment attractiveness. Large institutional investors, including BlackRock, have declared that ESG compliance is a decisive factor in portfolio management, reflecting a shift from purely financial analysis to broader sustainability assessments [5]. Companies with robust ESG policies have been shown to demonstrate higher resilience during crises, such as the 2008 global financial crash and the COVID-19 pandemic, due to stronger stakeholder trust and adaptive governance mechanisms.

At the same time, the integration of ESG practices is not without challenges. One of the most critical issues is the danger of “greenwashing,” where companies publicly commit to sustainability while avoiding substantive transformation of their operations. Another difficulty lies in the lack of global standardization of ESG reporting, which complicates the comparability of results across regions and industries. Moreover, in transitional and developing economies, the implementation of ESG is hindered by weak institutional environments, limited enforcement of regulations, and resource constraints. Nevertheless, the adoption of ESG principles in such contexts is often perceived as an opportunity for integration into global markets, attraction of foreign investment, and stimulation of innovation.

Thus, the evolution of business ethics reveals a gradual but consistent shift from philosophical principles of morality and fairness to applied corporate models and, finally, to the ESG paradigm, which unites ethical imperatives with measurable sustainability standards. ESG transforms business ethics from a primarily theoretical or voluntary concept into a practical governance framework that is capable of shaping long-term corporate strategy, reducing risks, and strengthening the legitimacy of business in the eyes of society. This paradigm offers a new understanding

of the role of corporations as not only economic agents but also as actors responsible for the sustainable development of global civilization.

Conclusions and Future Research. The evolution of business ethics demonstrates a gradual transformation from abstract philosophical reflections on morality and fairness to a concrete and measurable framework of corporate responsibility. The ESG paradigm represents a qualitative leap in this process, as it unites ethical, environmental, and governance concerns into an integrated approach that links sustainability with corporate strategy and investment decisions. Classical theories provided the moral foundations of business conduct, focusing on fairness, trust, and responsibility as prerequisites for market functioning [4]. The development of Corporate Social Responsibility in the twentieth century institutionalized ethical responsibility, yet often lacked concrete mechanisms for performance evaluation and remained largely voluntary [1; 2; 3]. In contrast, ESG offers measurable and reportable standards that embed sustainability directly into corporate governance and financial analysis [5-8]. At the same time, despite significant progress, the implementation of ESG practices across the globe remains uneven, facing challenges such as regulatory fragmentation, the absence of unified reporting methodologies, and the persistence of greenwashing practices that undermine stakeholder trust.

In this regard, further academic inquiry should be directed toward the development of standardized ESG metrics that can be effectively applied both in advanced and emerging economies. A promising direction is the exploration of sector-specific ESG models that take into account the unique characteristics of industries such as finance, energy, information technology, and manufacturing. Another essential field of investigation concerns the relationship between ESG adoption and corporate financial performance, particularly in transitional economies where institutional frameworks are still evolving. Advancing knowledge in these areas will contribute to the creation of more transparent, comparable, and effective mechanisms for integrating

ethical principles into global business practice, thereby reinforcing the role of ESG as a foundation for sustainable development.

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