

# EFR summary

Ethics and Sustainability, FEM11111

2025 - 2026



Weeks 1 to 2

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## Details

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# Lecture 1: Ethical theories

## Business ethics: functions, domains, & disciplines

- **Moral philosophy**
  - *Normative ethics*
  - Evaluate what should be considered right and wrong decisions.
- **Behavioural psychology**
  - *Descriptive ethics*
  - Explain people's right and wrong actions.
- **Management studies**
  - *Ethics management*
  - Apply management tools to facilitate moral behavior.

**Understanding ethics:** Ethics is about **principles/values/norms**, and acting morally in the right way, not just following laws. Ethics is not a simple "correct answer" system, it's more about **critical thinking and reflection** on morality.

### Ethics, law, and compliance

Ethics: What moral dilemmas are faced?

Law: What behavior is legally required?

Compliance: What norms are to be obeyed?

### How is the ethics of an action best determined?

Core leadership dilemma: even if something is **legal and profitable**, it can still be unethical (e.g., environmental harm). 3 "lenses" to judge actions:

1. Consequences
2. Principles/duties
3. Character/virtues

## Ethical theories

Three major ethical theories, each focusing on a different basis for morality:

- **Virtue ethics** (character/person)
- **Deontology** (conduct/rules/duties/acts)
- **Consequentialism** (effects/outcomes/results)

### Effects: Consequential ethics

The effect of the behavior determines the ethicality: the action is moral if the positive consequences outweigh the negative consequences.

- Identify relevant courses of action
- For each action, identify positive and negative consequences
- Calculate the net benefit of each action
- Choose the action with the highest net benefit

Consequential ethics = moral decision-making through a **cost–benefit style logic**: pick the option with the **highest overall net benefit**.

#### **Advantages:**

- Fits with reasoning in market
- Application in political context, in science and in personal life (widely usable)

#### **Disadvantages:**

- Practical: The problem of measurement and comparison
- Fundamental: The problem of justice and rights

#### **Examples of decisions:**

- "It is best for the consumer that we stop selling this product."
- "We increase salaries because our employees enjoy this."
- "To contribute to society, we decrease our ecological footprint."

### Conduct: Deontological ethics I

The morality of an act is determined by the nature of the act; the obligation to behave in accordance with certain principles, duties, and rights.

So, actions are moral when they follow **principles, duties, and rights**, regardless of consequences.

#### **Advantages:** Clarity & consistency

#### **Problems:**

- Black–white (not flexible)
- What about conflicting rights or principles?
- Effects are not taken into account

#### **Examples of decisions:**

- "We will not pay this bribe, because it violates fair competition."

- “We inform customers about the product defects because we are obliged to.”
- “We dismiss this manager because he has broken our rules.”

### Character: Virtue ethics I

Virtue ethics judges decisions as right that are taken based on a **virtuous mind-set** and congruent with a **good moral life** (so it is about *being good*, not only following rules or calculating outcomes).

**Advantages:** Flexibility, Inspiring

### Problems:

- Difficult to operationalize (harder to “measure” in practice)
- Vulnerable to relativism (may differ across cultures)

### Examples of decisions:

- “Because we are an honest company, we...”
- “Because we are a client-centric company, we...”
- “Nothing is more important than being ethical. Therefore...”

**Examples of virtues:** Acceptance, accountability, bravery, empathy, fairness, forgiveness, honesty, integrity, justice, kindness, loyalty, patience, trust, wisdom, etc..

## Overview of ethics theories

### Virtue Ethics (“Be a good person!”)

- Concepts: Good life, values in action
- Philosophers: Aristotle, Saint Thomas Aquinas, Confucius
- Criticism: Limited applicability in concrete dilemmas; value conservatism and need to define virtues in quickly changing world

### Deontology (“Follow higher principles and duties!”)

- Concepts: Moral principles, duties, rights, justice
- Philosophers: Immanuel Kant, John Locke, John Rawls
- Criticism: Conflicting duties and principles; practicability versus moral rigorism; neglectance of consequences of actions

### Consequentialism (“Judge by the outcome!”)

- Concepts: Greatest happiness principle, utility, hedonism
- Philosophers: Jeremy Bentham, John Stuart Mill
- Criticism: Feasibility and complexity of assessment; inferiority of single individuals and minorities’ interest; fair distribution

## Examples of ethical considerations: sustainability

- Environmental Responsibility: Ethical duty to minimize harm to the planet.
- Social Equity: Promoting fairness and reducing inequality.
- Economic Integrity: Balancing profitability with sustainable practices.

## Why good leaders can still get ethical decisions wrong

Even experienced leaders make poor ethical calls because of how our brains work.

Common traps to watch for:

- Moral disengagement: We distance ourselves from the consequences ("It's not my decision," "Everyone does it")
- Framing effects: How a dilemma is presented shapes our response (e.g., "It's a business issue, not an ethical one")
- Groupthink: Pressure to conform or not challenge dominant views
- Overconfidence bias: Belief that we are immune to poor ethical choices
- Rationalizations: We justify questionable actions ("It's for the greater good," "It's just how this market works")

Key takeaway: ethical dilemmas often don't have one perfect answer, but good leaders use a **strong decision-making process**, consider multiple ethical theories, and communicate clearly.

## Some ethical dilemmas relating to accounting

- manipulating timing of **expenses**
- premature **revenue recognition**
- hiding **fraud/irregularities** for self-protection or reputation