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Dipartimento
di Scienze Aziendali

Business Ethics

Normative Ethical Theories

Corso di laurea
in Business Administration,
Professional and Managerial
Accounting

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SEDE
Via dei Caniana, 2

DATA
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1

Evaluating Business Ethics Normative Ethical Theories - Overview

- Explain the role of normative ethical theory for ethical decision making in business
- Understand and apply Western modernist ethical theories
- Understand and apply 'alternative' ethical theories
- Conduct a pluralist business ethics evaluation

Acknowledgement: some of the contents of these slides have been adapted from Elena Cavagnaro's lectures



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2

2

Ethical decision in business

In business contexts there is often a need for decisions to be based on a **systematic rationale** and widely understandable argument, so they can be adequately **defended, justified and explained** to relevant stakeholders.



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3

3

What are normative ethical theories?

Ethical theories are the rules and principles that help to determine “right” and “wrong” for any given situation.

Normative ethical theories are those that propose to prescribe the morally correct way of acting.

As opposed to **descriptive ethical theories** which seek to describe how ethics decisions are actually made in business.



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4

4

Take a look around your class

- Do you think you have the same preferences and beliefs about “right” and “wrong”?
- Do you believe there are some universal ideals accepted by all?
- If any, which one?



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5

Let us practice...

As a manager of an international trading company, you were confronted with the following.

Your company was exporting goods to Briberyland. One day an officer of the local custom asked for some special ‘gift’. He said that otherwise your goods would be kept one month for control.

You knew this could happen as other colleagues in the same line of trade told you that they regularly paid some money to officials to ‘speed the process’. You knew also that Briberyland custom has the right to keep goods for some time legally for inspection.

On the other hand, bribery is illegal in the country the company you are working for has its head-quarters. At that time, your company however had no clear policy regarding bribery. In some way it was tolerated.

The goods you are exporting were for one of your best clients in Briberyland, and they were due two weeks after you got the request for a special gift.

Please read the case and think



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6

Ethical absolutism vs ethical relativism

Two extreme positions (De George 1999):

Ethical absolutism claims there are eternal, universally applicable moral principles

- Right and wrong are objective qualities, can be rationally determined
- Typically, traditional ethical theories

Ethical relativism claims morality is context-dependent and subjective

- No universal right and wrongs that can be rationally determined; depends on person making the decision & culture in which they are located
- Typically, contemporary ethical theories



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7

7

Absolutism vs Relativism: the case of bribery

Absolutism

Bribery is *always* wrong; the person faced with a corrupt official should certainly not engage in bribery and depending on the policies in place should also take the matter to the authorities.

Relativism

Bribery *may* be wrong; the person faced with a corrupt official should make a judgement based on the culture in which they are operating and the specific circumstances of the interaction. If the judgement is that engaging with the corrupt official would be wrong, the person should act as above; if the judgement is that it is not wrong, no barrier exists to 'greasing the wheels'.



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8

8

Ethical pluralism

... will be the approach of this course (and of our textbook)

- A pluralist approach
 - ✓ accepts that we ought to recognize that incompatible values can be equally legitimate and tolerate them as such;
 - ✓ allows an important openness and sensitivity to new realities
 - ✓ makes it possible to engage in rational discourse between individuals whose moral values are different from each other.



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9

9

Normative Ethical Theories and Religion

Religious and philosophical theories tend to have the same aim: **to inform us about the right things to do.**

With specific reference to business context, they both focus on ensuring that **business is responsible, avoids doing harm, and contributes to societal benefits.**

Two main differences:

- Sources of rules and principles.
 - Religions typically invoke deities or organized systems of belief as the origins of norms. Philosophy typically stems from belief in human reason to derive norms.
- Consequences of morality (or immorality)
 - Philosophy typically sees consequences as a matter of creating tangible social benefits or harms for others. Religions also point to spiritual consequences, including enlightenment, reincarnation, damnation, and salvation.



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10

10

Traditional ethical theories

These theories are **normative** because they start with an **assumption about the nature of the world**, and more specific assumption about the **nature of human being**.

The degree to which we can accept the theory and the outcome of its application to particular business situations depends on the degree to which we share their underlying assumptions.



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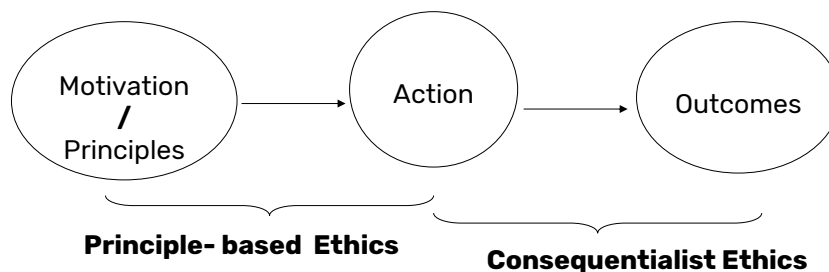
11

11

Traditional ethical theories

Generally offer a certain rule or principle which one can apply to any given situation (**unequivocal solution**)

These theories generally can be differentiated into two groups



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Source: Crane et al (2019)

12

12

Western Modernist Normative theories

Consequentialist theories

- ✓ Theories that base moral judgement on the **outcomes** of a certain action
- ✓ **Goal oriented**/Intended outcome
- ✓ If these **outcome are desirable**, then the action is morally right; if the outcomes of the action are not desirable, the action is morally wrong.
- ✓ **Teleological theories (goal)**

Principle-based theories

- ✓ Theories that base moral judgement on the derivation of **principles**.
- ✓ **What is right** vs what is desirable
- ✓ They look at the **desirability of principles**, and based on these principles, deduce a "duty" to act accordingly in a given situation, regardless of the desirability of the consequences.
- ✓ **Deontological theories (duty)**



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13

13

Consequentialist theories



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14

14

Egoism

Ethical egoism - an action is morally right if the decision-maker freely decides an action to pursue either their (short-term) desires or their (long-term) interests.

- Its roots can be traced back to Ancient Greek philosophy (Epicurus – hedonism = pleasure is the ultimate good and should be pursued for its own sake)
- Thomas Hobbes – the Leviathan - "war of all against all"
- Ayn Rand championed the theory due to a strong belief in individualism and the virtue of selfishness
- Perhaps most widely known in the guise of Adam Smith's (1793): pursuit of individual interest morally acceptable as invisible hand of market creates benefit for all (?)
- Milton Friedman (?) – capitalism and free market, shareholder primacy



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15

Are there any differences?



Both of them are pursuing their desires ...



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16

16

Problems with egoism

Based on the **desire** —→ Egoism based on the **pursuit of interests**

Objective value - one way of acting is objectively better or 'more ethical' than another (enlightened egoism/enlightened self-interest)

Need for mechanism in society that makes sure that no individual pursues their own interests at other egoists' expenses (i.e. market failures)

Some do not see egoism as an ethical theory as it is internally inconsistent



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17

17

Utilitarianism

According to **utilitarianism**, an action is morally right if it results in the **greatest amount of good for the greatest number of people** affected by the action.

Unlike egoism, it doesn't look at each individual involved and ask whether their individual desires and interests are met, but it focus on the **collective welfare** that is produced by a certain action.

Based on cost-benefit analysis, where '**utility**' is measured in terms of **pleasure** and **pain** ('hedonistic' view), or in terms of **happiness** and **unhappiness** ('eudemonistic' view), or in terms of **intrinsically valuable human goods** (like friendship, love, trust, etc.) ('ideal' view).



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18

Act- and Rule-Utilitarianism

Act utilitarianism

- Looks to single actions and bases the moral judgement on the amount of pleasure and the amount of pain this single action causes.

Rule utilitarianism

- Looks at classes of action and ask whether the underlying principles of an action produce more pleasure than pain for society in the long run.



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20

20

Problems with Utilitarianism

- **The interests of minorities are overlooked** (risk of sacrificing the rights and well-being of a few individuals in order to maximize that of the community)
- **Arrow's theorem** (from microeconomics): it is not possible to aggregate individual utility functions into a single one that perfectly represents the entire community (equal weighting?)
- It does not take into account **those starting from worse conditions** (an issue addressed by contemporary deontologist John Rawls with his Theory of justice)
- Risk of reducing well-being solely to **material well-being**, neglecting or undervaluing spiritual, cultural, and relational aspects
- The problem of **"boundaries"** (how we define a community?)



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21

21

The trolley problem



<https://www.youtube.com/watch?v=bOpf6KcWYyw&list=RDbOpf6KcWYyw&index=1>



https://youtu.be/yg16u_bzjPE

Attention! New link!



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22

22

Principle-based theories



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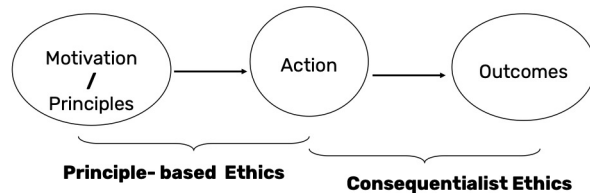
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23

Principle-based (deontological) theories

They stem from the assumption about **basic universal principles** of right and wrong.

- Ethics of duties
- Ethics of rights and justice



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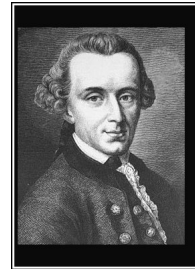
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24

Ethics of duties – Immanuel Kant

For Kant, morality was a question of certain **abstract** and **unchangeable obligations** defined as a set of a priori moral rules that humans should apply to all relevant ethical problems.



- Human as **rational actors** who had **free will** to make their choices could decide these principles.
- **Duties** lie at the heart of morality
- A duty is derived from a **commitment** to do the right thing to the sake of the moral law.



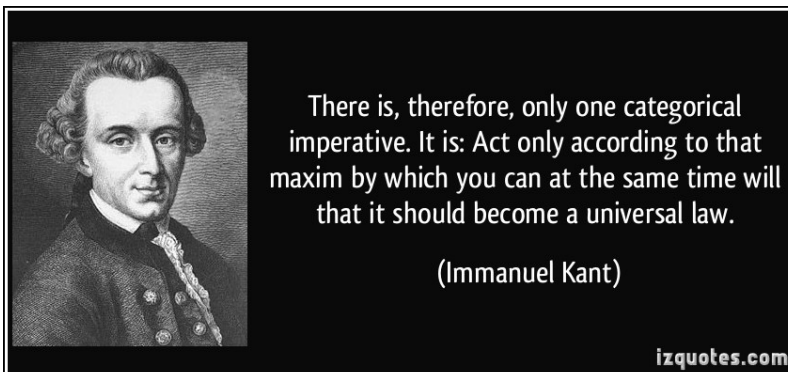
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25

25

Categorical imperative



Categorical = universal and without conditions

Imperative = a command to be followed



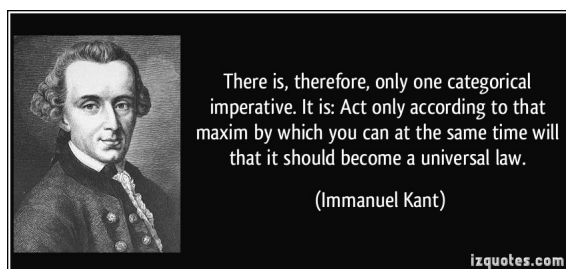
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26

26

Categorical imperative



Categorical = universal and without conditions

Imperative = a command to be followed



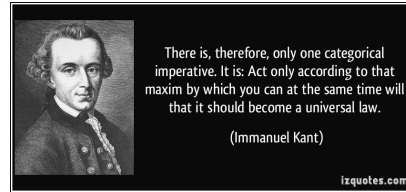
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27

27

Categorical imperative



Maxim 1: *Consistency*

- Act only according to that maxim by which you can at the same time will that it should become a universal law.

Maxim 2: *Human Dignity*

- Act so that you treat humanity, whether in your own person or in that of another, always as an end and never as a means only.

Maxim 3: *Universality*

- Act only so that the will through its maxims could regard itself at the same time as universally lawgiving (could all rational agents endorse this rule as a law they jointly give themselves?)



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28

The trolley problem



From a consequentialist, utilitarian perspective the 2 situations are equal: 1 vs 5 lives, and you should choose to sacrifice 1 to save 5 because the utility is higher if 5 survive

From a non-consequentialist perspective, the 2 situations are equal, too: in both cases you should do nothing because human life is an incommensurable good and cannot be considered as a part of a bargain or a means towards an end (1 against 5); in other words, the life of a human being should never be used as a mean toward an end.

Yet, we somehow 'feel' that the two situations are not equal

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➤ Required agency / responsibility

➤ Degree of involvement of the 'third' person



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Problems with ethics of duties

- Undervaluing motivation
- Undervaluing outcomes
- Assumption of rationality (misplaced optimism?)



https://www.youtube.com/watch?v=x_uUEaeqFog&list=RDbOpf6KcWYyw&index=2



<https://www.youtube.com/watch?v=gGczdp0SE0c&list=RDbOpf6KcWYyw&index=3>



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30

Ethics of rights and justice

Natural rights

John Locke - **Natural rights** (moral claims) that humans were entitled to, and which should be respected and protected (rights to life, freedom and property)

Human rights

Basic, inalienable entitlements that are inherent to all human beings, without exception.

- Results in the **duty** of other actors to respect them.
- Based on consensus about nature of **human dignity**.
- Increasingly important: enshrined in principles of UN Global Compact and the UN Guiding Principles on Human Rights "Ruggie Principles".

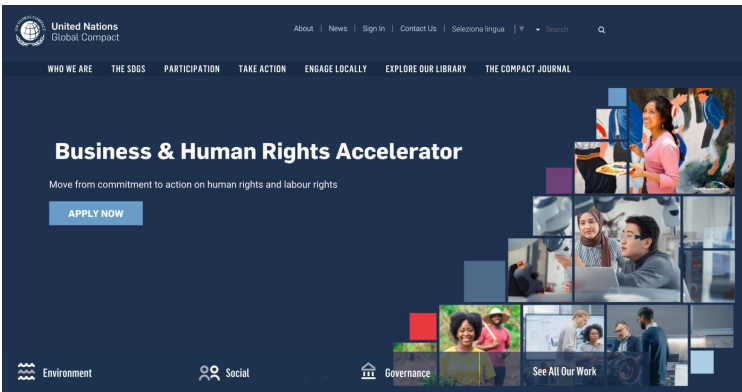


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31

31



25,493
PARTICIPANTS

167
COUNTRIES

62
COUNTRY NETWORKS



United Nations
Global Compact

Principle One: Human Rights
Businesses should support and respect the protection of internationally proclaimed human rights.

Principle Two: Human Rights
Businesses should make sure that they are not complicit in human rights abuses.



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32

32

Ethics of rights and justice

Human rights

STATE – duty to protect human rights

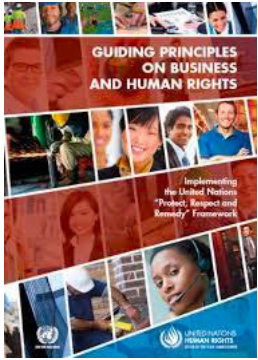
BUSINESS – duty/responsibility to respect human rights

JUDICIARY – remedy for victims of abuses

- a) Avoiding causing or contributing to adverse human rights impacts
- b) Seek to prevent or mitigate adverse human rights impacts
- c) Protect human rights
- d) Enhancing civil rights

}
Corporate citizenship

➔
Human rights due diligence



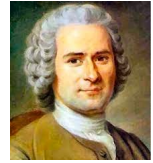


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33

33

Social contract theory – J-J. Rousseau



State of nature:

people are peaceful and kind, living solidary and uncomplicated lives;
Interest of all in passing and sharing knowledge, art, information

Social contract = a hypothetical agreement between members of a society and those who govern it that establishes the interrelationships, rights, and responsibilities on a fair basis.

- Used to determine business responsibilities
- Rights, obligations and justice bind the members of the society
- Business and government together to create a good society



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34

34

Ethics of rights and justice

Justice

The simultaneously fair treatment of individuals in a given situation with the result that everybody gets what they deserve

Crucial moral questions:

- What exactly fairness should mean in a particular situation?
- By which standards we can decide what a person might reasonably deserve?



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35

35

Ethics of rights and justice

Procedural vs distributive justice (Boatright, 2014)

- **Fair procedures** (procedural justice) = fairness is determined according to whether everyone has been free to acquire rewards for their efforts.
- **Fair outcomes** (distributive justice) = fairness is determined according to whether the consequences (positive and negative) are distributed in a just manner, according to some underlying principle such as need or merit.



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36

36

John Rawls's - 'Theory of Justice'



State of nature in which people are equal, free and rational, seeking to advance their own interests + '**veil of ignorance**'.

A society is just when:

1. Each person has an equal right to the most extensive total system of basic liberties compatible with a similar system of liberty for all.
2. Social and economic inequalities are arranged so that they are both:
 - a. to the greatest benefit of the least advantaged (difference principle);
 - b. attached to offices and positions open to all under conditions of fair equality of opportunity (equal opportunity principle).

IMP: on Theory of Justice please look at this video: <https://youtu.be/n6k08C699zl>



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38

38

Major normative theories: a summary Source: Crane et al (2019)				
	Ethical egoism	Utilitarianism	Ethics of duty	Rights & Justice
Type	Consequentialist	Consequentialist	Principle-based	Principle-based
Leading contributors	Thomas Hobbes	Jeremy Bentham	Immanuel Kant	John Locke Jean-Jacques Rousseau John Rawls
Key works	Leviathan (TH) The Virtue of Selfishness (AR)	An Introduction to the Principles of Morals and Legislation (JB), Utilitarianism, on liberty, considerations on representative government (JSM)	Foundations of the Metaphysics of Morals (IK)	Two Treatises of Government (JL), The Social Contract (JJR), A Theory of Justice (JR)
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39

Major normative theories				
	Ethical egoism	Utilitarianism	Ethics of duty	Rights & Justice
Focus	Individual desires or interests	Outcomes and collective welfare	Duties	Rights and the nature of justice
Guiding tenets	Maximization of desires/self-interest	Act/rule utilitarianism	Respect for autonomy and rational reasons	Universalisable rules for nature of justice and respect for human beings
Concepts of human beings	Humans are objectively obliged to serve their self interest alone	Humans are motivated by avoidance of pain and gain of pleasure	Humans are rational moral actors with free will	Human beings are distinguished by dignity
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40

Limits of traditional Western Modernist ethical theories

- Too abstract
- Too reductionist
- Too objective and elitist
- Too impersonal
- Too rational and codified
- Too imperialist



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