

The wider world affecting business

Ethics in business

What are ethics? Ethics is a set of moral principles about what is right and wrong

What is ethical behaviour? A business acts ethically when its actions are morally acceptable i.e. the firm is seen to be 'doing the right thing'. Unethical behaviour involves taking unfair advantage of customers, staff, suppliers, etc

How can firms act ethically? Ethical behaviour requires firms to take account of the wider impact of its actions on stakeholders. Managers making ethical decisions take into account:

- *Impact:* Who does my decision affect or harm?
- *Fairness:* Would my decision be considered fair by those affected?

Give examples of ethical business behaviour. Examples include:

- Ensuring staff are paid a fair wage and have good working conditions
- Paying fair prices for supplies and fair wages to workers
- Paying suppliers promptly and giving them long term contracts
- Protecting the environment by using renewable resources and minimising pollution
- Supporting the local community and charities

Define decision making. Decision making is selecting a course of action between alternatives.

Define choice. Choice involves selecting one option between alternatives.

What are trade-offs? A trade-off is the process of making a choice between alternatives

Give an example of an ethical choice. A furniture maker can source wood using 1) low cost non-renewable timber or 2) sustainable but high cost wood forests where trees are replanted.

Why do some firms opt to act unethically? Acting ethically usually increases costs and so reduces profit margins and competitiveness. Paying the lowest amount possible for raw materials and wages may harm suppliers and workers but benefits profits and owners.

List the potential costs of acting unethically. Firms that are seen as acting unethically to cut costs can lose customers, sales and profits

Why do some firms opt to act ethically? The ethical behaviour of the firm can affect

- *Sales.* Many customers try to buy items sourced and made ethically – even if this means paying higher prices. Eg the Co-op is thriving by marketing itself as an ethical brand attracting customer loyalty and repeat purchases
- *Motivation.* Ethical firms attract staff who are willing to work harder than is normally expected. This means higher productivity, lower costs and so higher profits
- the annual report to shareholders

What are pressure groups? Pressure groups are organisations that aim to influence decision makers and change how business operate

How can pressure groups make change happen? Pressure groups take action to change the attitudes and behaviour of *stakeholders*. For example:

- drawing of *customers* attention to unethical behaviour by organising marches or demonstrations outside shops; writing letters to the press and MPs; newspaper adverts
- attending company AGMs and press conference and asking challenging questions
- persuading the government to introduce new laws and regulations restricting firms
- direct action and disruption

Environmental issues

What is the environment? The natural environment is made up of all living and non-living things occurring naturally on Earth

What are renewable resources? Renewable resources can be replaced after use eg solar energy and trees

What are non-renewable resources? Non-renewable resources can only be used once and so cannot be replaced after use eg coal, gas and oil

List the main short term environmental effects of business activity. Production can lead to

- *noise and air pollution* from production eg CO₂ emissions from power stations
- *traffic congestion* as raw materials, components and finished products are moved and staff travel to work

List the main long term environmental effects of business activity. Production can lead to

- *resource depletion* when natural resources are used up and not replaced
- *climate change* in temperature, rain fall, wind speeds and sea levels

How can business activity cause climate change? Burning fossil fuels to generate power releases greenhouse gases eg CO₂ into the atmosphere. Carbon dioxide acts like a blanket and traps warmth leaving the earth causing *global warming* ie average temperatures to rise.

What is sustainable production? Sustainable production occurs when resources taken from the environment are replaced eg new trees are planted to replace those cut down for timber

How can businesses reduce the impact of their activities on the environment? Firms can

- use non-renewable *energy sources* eg wind power and *resources* eg recycled paper
- replace old energy inefficient or high polluting equipment with *green technology*
- *buy locally made inputs* to reduce traffic congestion and air pollution
- design products to be *recyclable and reduce the amount of packing* used in products
- reduce pollution by making better use of *video conferencing* to avoid travelling

How does going green affect sales and profit? Going green can increase costs and so reduce profits. However being seen to be green can attract new environmentally conscious consumers and so boost sales and profits. Staff may feel motivated by working for a green firm

International income distribution

Explain the term income distribution. Income distribution is how total income is shared out.

How is income distribution between countries measured? One method is to calculate average income per head of the population using US dollars (\$) as a common currency

How is average income per head of the population calculated? By dividing the total value of all products made in a country in a year (GDP) by the size of the population

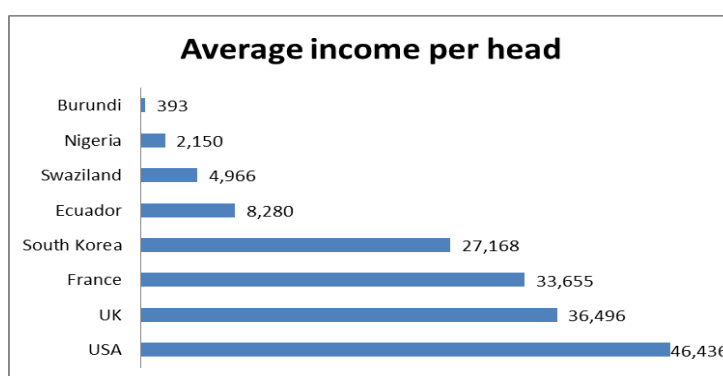
What is GDP? GDP is short for gross domestic product which is the monetary value of all products made in a country in, say, a year.

Show how UK average income per head is calculated. The GDP of the UK in 2009 is around £1,265,000m and the population is around 62m. This means average income from every man woman and child in the country is around £20,400 Source: [Measuring Worth](#)

How is world income distributed?

World incomes are distributed very unevenly.

The diagram shows that in terms of US dollars (\$) the average income of someone living in Burundi is less than someone in Nigeria and a tiny fraction of the average income of citizens living in developed countries such as the France, the UK and the USA



Import protection and export subsidy

What is international trade? The buying and selling of products between countries

What are exports? UK exports are UK made products sold overseas,

What are imports? UK imports are overseas made products sold in the UK.

How can UK firms compete against foreign rivals? UK businesses can compete against foreign rivals by offering better designed, higher quality products at lower prices.

Explain the term import protection. Import protection is a government measure taken to reduce the amount of overseas made products sold in the UK

Give examples of an import protection measure. Governments can introduce *tariffs*: a tax on imported products that raises the price of imports and *quotas*: physical limits on the volume of imports allowed into a country

How do tariffs affect UK firms? Tariffs increase import prices. The impact varies

- UK firms competing against importers benefit
- UK firms importing raw materials and components pay more for inputs and must either pass on cost increases as higher prices or accept lower profit margins
- UK firms exporting to countries imposing tariffs suffer as they must either pay the tariff out of profit or pass on the tariff to customers as higher selling prices

How can quotas affect firms? Quotas restrict the amount of imports creating shortages and higher prices.

Explain export subsidies. A subsidy is a payment made by the government to lower prices. An export subsidy helps UK firms selling overseas to cut prices and gain sales.

The impact of government

How can the government take action to affect businesses? The main ways the state can influence business behaviour is by changing *taxes* and laws and *regulations*

List the main types of taxes that can affect a business.

- *Income tax* taken out of staff wages and salaries. Increasing income tax means workers have less disposable income and so less money to spend in the shops.
- *Value added tax (VAT)* on goods and services. The increase in VAT to 20% in 2010 may increase prices if firms opt to pass on the VAT increase to customers as higher prices.
- *Corporation tax* is a tax on company profits. A rise in corporation tax means companies keep less profit leading to less investment in new equipment and R&D
- *National Insurance contributions (NIC)* are payments made by both the employee and the employer which pay for the cost of a state pension and the National Health Service. A rise in NICs increases costs which can mean higher prices if passed onto buyers.
- Local government collects *rates* from firms. An increase in rates increases overheads

Explain government regulations. Regulations are rules that restrict behaviour ie 'red tape'

Give examples of regulations. The government issues thousands of rules covering eg health and safety, waste disposal, maternity leave, equal opportunities, planning permission, etc

What are the benefits of regulation? Regulations aim to protect the interests of weaker stakeholders and so avoid business exploitation of workers, customers etc

What are the costs of regulation? New rules usually increase costs eg installing disabled access in an historic house or ensuring fathers have paid paternity leave

How is the impact of regulation assessed? New rules create 'winners and losers'. A regulation is effective if the benefits it creates outweigh its costs.

What is the EU? The EU stands for the European Union and is an association of 27 European member states seeking increasing economic and political co-operation

How can EU regulations affect UK businesses? The UK is a member of the EU. This means EU regulations are binding on UK firms eg lorry drivers must take frequent breaks

How does the minimum wage affect businesses? An increase in the minimum wage benefits workers with low wage jobs but increases the costs of the business. Firms may opt to hire fewer staff or pass on cost increases as higher prices to maintain profit margins

How do maternity/paternity rights affect businesses? By law parents are entitled to paid leave on the birth of their child and their job is kept open if they want to return. This means firms are paying for both the parent on leave and their replacement – if one can be found

How do health and safety regulations affect businesses? Health and safety rules protect staff but are costly to implement.