

# Environmental and Ethical Issues

## Business Activity and the environment

- Social responsibility is when a business decision benefits stakeholders, other than shareholders, for example, a decision to protect the environment by reducing pollution by using the latest and greenest equipment
- Environment is our natural world including, for example, pure water, clean water and under developed countryside
- Business activity aims to satisfy needs and wants but often has an impact on the environment. Such as:
  - × Aircraft jet engine emissions damage the atmosphere
  - × Pollution from factory and chimneys reduces air quality
  - × Waste disposal can pollute rivers and seas
  - × Transport of goods by ships and trucks burns fossil fuels such as oil which create carbon emissions and may be linked to global warming and climate change

<u>Businesses should produce and services profitably without worrying about the environment</u>	<u>Businesses have a social responsibility towards the environment and this can benefit them too</u>
Protecting the environment is expensive- this may reduce profits	Global warming and global pollution affect us all and businesses have a social responsibility to reduce these problems
Firms have to increase prices to pay for environmentally friendly products	Using scarce natural resources which are non-renewable leaves less for future generations and raises prices
This could make firms lose competition and they could lose sale to businesses, perhaps in other countries who are not environmentally friendly	Most scientists and environmentalists believe that business activity can damage the environment permanently
Consumers will buy less if they have to pay higher prices	Consumers are becoming more socially aware- they are increasingly demanding products from environmentally friendly firms and this can become a marketing advantage
If pollution is a problem, then governments should be responsible to clean it up	If businesses damage the environment, then pressure groups could take action to harm the firm's reputation
Some business owners claim there is not enough proof that business activity is doing permanent damage to the environment	

## Externalities

- Private costs of an activity are the costs paid for by business e.g. cost of land, construction, labor, maintenance and transportation
- Private benefits of an activity are the gains to a business e.g. profit made from new establishment
- Before deciding whether or not to grant planning permission the government also considers the external costs and external benefits i.e. the impact on the rest of society other than the business itself

- External costs are the costs paid for by the rest of society, other than the business, as a result of business activity e.g. waste products will cause pollution & smoke and fumes damaging health
- External benefits are the gains to the rest of society, other than the business, resulting from business activity e.g. jobs will be created & the business will pay taxes
- The government will try to give a value of all these costs and benefits- this is called a cost-benefit analysis
- Social costs = external costs + private costs
- Social benefits = external benefits + private benefits

### Sustainable development

- Sustainable development is the development which does not put at risk the living standards of future generations
- Sustainable development means trying to achieve growth but without damaging the environment and society for future generations
- Sustainable production methods are those that do minimum damage to the environment

What can businesses do?

- Use renewable energy
- Recycle waste
- Use fewer resources
- Develop new environmentally friendly products and production methods

### Responding to environmental pressures and opportunities

#### Pressure groups

- A pressure group is made up of people who want to change business (or government) decisions and they take action such as organism consumer boycotts
- A consumer boycott is when consumers decide not to buy products from businesses that do not act in a socially responsible way

Pressure group activity is likely to change business action when:

- ✓ They have popular public support and receive much media coverage
- ✓ Consumer boycotts result in much reduced sales for the firm
- ✓ The group is well organized and financed

Pressure groups activity is unlikely to result in a change in business actions when:

- × What the firm is doing is unpopular but not illegal
- × The cost to the business of changing methods is more than the possible cost of poor image and lost sales
- × The firm sells to other businesses rather than to consumers-public pressure will be less effective

#### Laws passed by government

- The government can make business activities illegal
- Manufacturers often complain that these laws make it more expensive for them to produce

- This raises prices for consumers
- For this reason, some governments do not pass strict laws on the environment

### Financial policies, including pollution permits

- Pollution permits are licenses up to a certain level
- Governments can sell a permit to a factory that produces pollution
- If the firm produces more pollution than the permit allows, it must either buy more permits from clean firms or pay heavy fines
- Either way costs of business will increase
- Firms producing less pollution can sell their permits to dirty firms
- This encourages firms to produce goods in less polluting ways
- Other financial penalties could be additional taxes on goods or factories that create pollution

Being environmentally friendly can create a positive public opinion of a business and lead to possible public opinion of a business and lead to opportunities for sustainable growth

### Ethical Issues

- Ethical decisions are based on a moral code. Sometimes referred to as doing the right thing \
- The two most extreme views are:
  - As long as a business does not deliberately break the law then any decision it makes it acceptable. Businesses want to make profits after all
  - Even if certain activities are not illegal, it is unethical and therefore wrong to do them despite any increase in profits that might occur.