knowledge and understanding

6.1 Ethical and environmental considerations

Ethical

Ethics	Is about what is right and wrong 
Child labour	Is the use of young children, below the legal age for employment, in order to achieve low-cost production
Fairtrade	Is a movement that encourages businesses to pay a fair price to suppliers in developing countries and consumers to buy Fairtrade goods
Environmentally friendly	Describes consumers and businesses that act to make production sustainable
Sustainable production	Is when production does not lead to the depletion (using up) of natural resources
Renewable resources	Are resources that can be used more than once, such as wind or water power. 
Non-renewable resources	Are resources that can only be used once, such as oil  
Recycling 	Is when resources are reused to produce something
Global warming	Is the rise in average temperatures that scientists say is taking place
Waste disposal	Is the process of getting rid of unwanted materials
Pollution 	Is causing harm to the environment including air, land and water
Climate change 	Is the process when average temperatures rise or fall and patterns of weather change

Ethical considerations in business

Treatment of workers – no child labour, fair wage, fair hours, safe working conditions, no discrimination.
Treatment of suppliers – avoid late payment, pay fair prices
Treatment of customers and marketing decisions – no overcharging, no false claims, not putting customers in danger
Sourcing of materials – do not buy from businesses with child labour, do not buy from anyone who does not produce sustainably

Impact of ethics on businesses

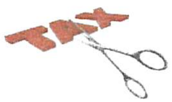
- **Higher costs** because they may be using more using **more expensive materials** that have been sourced locally and are a better quality
- **Reduced profits** because they may be paying employees **higher wages** which **increases their costs and decreases their profits**

Benefits of a business being ethical

- **Improved reputation** because more customers are willing to buy from a business who is treating their employees/ suppliers/ customers well.
- **Increased sales** because they will attract more customers.
- **Workers may feel more motivated** because they will trust their employer therefore may increase productivity and reduce labour turnover which will **reduce recruitment costs**

Environmental

Sustainability	Waste disposal	Pollution	Climate Change
Use of renewable resources rather than scarce resources	Business should reduce, reuse or recycle its waste	Introducing something harmful into the environment e.g. noise, air etc.	Change in weather patterns or average temperatures.

Benefits of a business being environmentally friendly	Drawbacks of a business being environmentally friendly
Increased sales - consumers are becoming increasingly aware of the negative effects that businesses can have on their environment. 	**Raw material costs** - raw materials that have been produced in an environmentally friendly way often cost more.
Reduced costs - for example, by using energy saving light bulbs, generating their own energy through solar panels, reducing the amount of packaging and buying locally to reduce transport distances and CO2 emissions. 	**Capital costs** - investing in the capital equipment needed to introduce environmentally friendly production processes. For example, the costs of buying and installing solar panels may exceed the money from saving them.  
Reduced tax bills - businesses can face a reduction in the taxes that they pay if they reduce their negative impact on the environment. 	**Production methods may be more expensive** - for example, growing food organically is more expensive than using fertilisers and pesticides. 
Getting subsidies - governments may offer subsidies to businesses to help them introduce environmentally friendly products and production processes. 	

6.2 The economic climate

Economic climate	Refers to how well the country is doing in terms of the levels of income and employment
Income	Is the amount of money that people receive from work and assets they own, such as shares and property
Customers	Are buyers why buy goods and services
Consumer income	Is the total amount of income that all customers in the country receive and which they have available to spend
Level of unemployment	Is the numbers of people in work in a country
Level of income	Is the average income of people in a country
Economic growth	Is a period when income and employment is rising
Recession	Is a period when income and employment is falling
Distribution on income	Refers to how the income is shared amongst different people in the community
International economic climate	Refers to what is happening to income and employment in different parts of the world

The impact of changes in income

An increase in income would lead to...

- Increased sales, increasing revenue and profit
- Businesses may need to employ more workers
- Businesses may expand by opening new shops

How much a business will be affected by a change in income will be influenced by:

- How much income changes
- The type of product the business sells
- How a business responds to the change in income

The impact of changes in employment

A decrease in employment (an increase in unemployment) could lead to:

- Firms finding it easier to recruit new workers as there is an increase in available workers
- Production costs may be cheaper as wages may fall as the competition for jobs is greater

How much a business will be affected by a change in employment will be influenced by:

- How much employment changes
- The change in the type of employment. If there is a rise in the demand for skilled workers, this may be more difficult to deal with than a rise in the demand for unskilled workers.

Possible changes to business strategy when income and employment

Production

The business may try to reduce costs by:

- Reducing waste
- Improving worker productivity

HR

The business may try to reduce costs by:

- Improving worker productivity
- Laying off workers to reduce the wage bill

Finance

The business may try to reduce costs by:

- Taking out cheaper loans
- Reducing its overdraft

Marketing

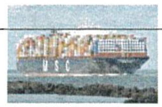
The business may try to increase sales

- by increasing advertising
- producing a cheaper product
- lowering prices

6.3 Globalisation

Globalisation	Is the process of how business activity around the world has become increasingly interconnected
International branding	Is creating an image or values that are communicated in countries around the world
Capital	Is the money or assets such as machines, buildings, vehicles
Free trade	Is the absence of restrictions on trade between countries
Trade	Is the import and export of goods and services
Tariff	Is a tax on a good or service that is imported
Quota	Is a limit in terms of weight or value on the amount of goods that can be imported
Regulations	Are rules about the goods and services that can be sold in a country
Multinational companies	Are businesses that operate I different countries around the world
Unit cost	Is the cost per unit produced. The grater the productivity of workers, the lower the unit cost of production
Productivity	Is a measure of the output of each worker on average

Analysis	Advantages	Disadvantages
To a business of being a multinational company 	• **Increasing sales** • **Spreading risk** - if one market loses sales the company may be able to compensate by selling extra products in a country that is experiencing a boom • **Lower costs** - productions costs may be reduced • **Tax avoidance**	• **May experience diseconomies of scale** - as they become bigger they may become **less efficient and more difficult to control** 
To a country of hosting a multinational company	• **Creating demand** for host country businesses - they may employ local people and increase incomes. • **Taxes and public services** - help provide improved healthcare/ education services • **Lower prices**	• **Business closures - local business** may not be able to compete in terms of price and quality • Outflows of money - they **move profits out of the host country** to where they have their headquarters

	How each factor has encouraged globalisation
Transport 	Transport costs have reduced as ships and planes have become bigger. The development of containers has reduced costs.
Telecommunications and the internet 	Communication has become faster and cheaper. Firms can research materials from suppliers all over the world.
Free trade arrangements 	When there are no barriers to trade. Countries can easily buy and sell products to each other.