Lesson 2: Ethical and environmental considerations

🎯 Learning goals

- ✓ Explain ethical behaviour and why it can cost more
- ✓ Explain environmental responsibility and sustainability
- ✓ Weigh the costs and benefits of acting responsibly
- ✓ Apply these ideas to a fashion retailer

🔑 Key words

Ethical behaviour Acting in ways stakeholders consider fair and honest.

Trade-off When gaining one thing means giving up another.

Environmental responsibility Reducing a business's negative impact on the environment.

Sustainability Meeting present needs without harming future generations.

Scarce resources Resources that are limited in supply.

📘 What you need to know

Firms weigh ethics and the environment against short-term profit.

1. Ethical behaviour

Ethical behaviour means acting in ways stakeholders see as fair and honest — going beyond the bare minimum the law requires. Examples include paying **fair wages**, using **fair-trade suppliers**, avoiding sweatshop labour, and advertising honestly.

Acting ethically often **costs more**, because ethical suppliers and better materials cost more than the cheapest options. This is a trade-off: behaving ethically can reduce short-term profit. The pay-off is a **better reputation and more customer loyalty** — many shoppers prefer brands they trust, so loyalty can lift sales and profit over the long term.

> *"Acting ethically can cost more now, but a strong reputation builds customer loyalty for the future."*

2. Environmental responsibility

Environmental responsibility means reducing a business's negative impact on the environment. Issues a business can affect include **traffic congestion, recycling, waste disposal, and noise and air pollution**. For example, recycling reduces waste sent to landfill and saves resources. Behaving responsibly can raise **setup or operating costs** — such as greener equipment or materials — which must be weighed against the benefit to reputation and the planet.

3. Sustainability

Sustainability means meeting present needs without harming future generations. It matters because some resources are scarce (limited in supply), and because **global warming** may push businesses to cut emissions or change how they produce. Like ethics, sustainability can reduce short-term profit, because sustainable materials and processes often cost more.

Acting responsibly — benefits

- ✓ Better reputation and customer loyalty.
- ✓ Less waste and pollution.
- ✓ Ready for tougher future rules.

Acting responsibly — costs

- ✗ Ethical, sustainable materials cost more.
- ✗ Higher setup or operating costs.
- ✗ Lower short-term profit.

✅ Test yourself

Cover the answers below, answer Q7–Q19, then check.

Q7 What is ethical behaviour?
Q8 Give an example of ethical business behaviour.
Q9 Why can ethical behaviour increase costs?
Q10 What is a trade-off between ethics and profit?
Q11 One benefit of ethical behaviour to a business?
Q12 What is meant by environmental responsibility?
Q13 Name environmental issues businesses may affect.
Q14 How does recycling benefit the environment?
Q15 One cost of environmentally responsible behaviour?
Q16 What is sustainability?
Q17 How does global warming affect business decisions?
Q18 What are scarce resources?
Q19 Why can sustainability reduce short-term profit?

ANSWERS

A7 Acting in ways stakeholders consider fair and honest.
A8 Paying fair wages or using fair-trade suppliers.
A9 Ethical suppliers and materials may cost more.
A10 When acting ethically reduces short-term profit.
A11 Improved reputation and customer loyalty.
A12 Reducing negative impact on the environment.
A13 Traffic congestion, recycling, waste disposal, noise and air pollution.
A14 It reduces waste sent to landfill and saves resources.
A15 Higher setup or operating costs.
A16 Meeting present needs without harming future generations.
A17 Businesses may need to reduce emissions or change production methods.
A18 Resources that are limited in supply.
A19 Sustainable materials and processes often cost more.