Edexcel (B) Economics A-level

Theme 3: The Global Economy

3.4 Impact of Globalisation on Local and National Economies

3.4.2 Ethical issues

Notes

Stakeholder conflicts

A stakeholder is anyone with an interest in how a business is run. For example, the possible stakeholders of an MNC could be:

- **The shareholder:** Shareholders want the firm to make a large profit, so the share price increases and the value of their dividend goes up.
- **Employees:** They aim for high wages and good working conditions.
- **Consumers:** They want goods of a high quality and a low price.
- **Managers:** They want to earn large bonuses and salaries, as well as personal benefits, such as leisure time and company cars.
- **Government:** Governments aim to earn tax from the firm's profits, such as corporation tax.
- **Suppliers:** Firms are the customers of suppliers. Suppliers want firms to remain in business so they still have customers.

When there are many stakeholders, their objectives might conflict. For example, it is hard to make sure costs are kept at their lowest in order to maximise profits if employees are demanding higher wages.

The **principal-agent problem** can be linked to the theory of asymmetric information. This is when the agent makes decisions for the principal, but the agent is inclined to act in their own interests, rather than those of the principal. For example, shareholders and managers have different objectives which might conflict. Managers might choose to make a personal gain, such as a bonus, rather than maximise the dividends of the shareholders.

When an owner of a firm sells shares, they lose some of the control they had over the firm. This could result in conflicting objectives between different stakeholders in the firm. If the manager is particularly good, they might require higher wages to keep them in the firm. However, they also need to keep shareholders happy, since they are an important source of investment. It is not always possible to give both the manager a high salary and the shareholders large dividends, since funds are limited.

Some stakeholders might question the ethical behaviour of a firm, even if it is intended to give the firm a competitive advantage. For example, consumers want cheap energy, which is usually found with the use of coal, but this can cause damage to the environment.

Pay and working conditions

There are ethical issues which need to be considered. The working conditions might be poor or hazardous. Recent stories about the horrors of sweatshops and garment factories shocked the world, such as when a garment factory burnt down in Dhaka, Bangladesh in 2013. Despite the hard and incredibly dangerous working conditions, these factories provide a huge step up from the village, especially for women to gain financial independence from the restraints of a patriarchal society. Therefore, some people may argue that perhaps it is not unethical to have these factories. However, workers are exploited and the environment is damaged, since the firms which use these factories aim to maximise their profits and not worker welfare.

There has also been controversy over the exploitation of labour and child labour. For example, some cocoa farms have been known to illegally employ trafficked children and make them use dangerous equipment, such as machetes, in order to farm the cocoa beans. Child labour and exploited labour has also come under controversy in the clothing industry with cheap clothing chains.

Environmental considerations:

Emissions and waste disposal

High and fast levels of economic growth could mean that production levels are high. This could use a lot of natural resources, such as coal, oil and natural gas. There could also be deforestation. However, governments might try and implement policies to reduce this depletion.

The production and transportation of goods can also negatively impact the environment. This could mean that natural resources, such as oil, are not used sustainably. Sustainable development is when the stock of natural resources does not decline over time. It allows the needs of the present generation to be met without compromising the ability of future generations to meet their needs.

Marketing considerations:

Misleading product labelling and inappropriate promotional activities

In order to avoid a negative public reputation, and potentially controversy which could negatively impact sales, MNCs have to be careful how their goods are marketed. This is especially important with goods such as cigarettes, which result in significant social costs.