Topic 3.5: The wider world affecting business

Case study

Blist is a major world oil company. It is involved in all stages of the oil industry from exploration to extraction to refining to selling petrol on garage forecourts.

Over the past thirty years, it has been forced to become more environmentally conscious. Governments and environmental pressure groups have led to changes in operating policies. The company has had to spend billions of pounds to upgrade equipment, minimise air and water pollution and deal with the waste created from its oil facilities. Since oil is a non-renewable resource, the company has also been investing in new renewable energy technologies such as wind turbines and solar panels. It hopes that once oil runs out, it will be well placed to survive as a major world energy company.

Environmental concerns, however, continue to pose major ethical issues for the company. Shareholders are always demanding higher profits. On the other hand, going beyond what legal minimum environmental standards demand adds to costs. One issue that the company repeatedly faces is about different operating standards in different countries. Environmental standards are lower in Nigeria or India than in the UK or the United States. The ethical dilemma is whether the company should operate to the same environmental standards in Nigeria as in the UK even though this would increase costs.

Another issue concerns taxation. Different countries impose different levels of taxation on a company like Blist. It tries to minimise its tax bill by shifting as many resources, revenues and profits to low tax countries and away from high tax countries as is possible. However, some pressure groups have criticised its practices as being unethical. They argue that many poor developing countries lose out because they have relatively high tax rates.

Blist operates across the globe in both developed and developing countries. Its main customers are in developed countries because these countries generate most of the world's income. As developing countries become richer, this will change. Developing countries will provide much larger opportunities for Blist to expand its sales operations. Some countries, however, have strong protectionist policies that keep Blist out of their markets. For example, Blist is unable to sell fuel directly to motorists in both India and China because of their policies. The company continues to press governments to lower or abolish tariffs and quotas and other protectionist measures so that it can operate more freely across the globe.

Suggested discussion points/answers

1. Using Blist as an example, what is meant by 'ethics' in a business context?

Indicative content

- Business ethics are the ideas about what is morally correct (right or wrong) or not in a business sense
- Blist face the ethical dilemma when operating in Nigeria or India. Should they continue to meet the high environmental standards they adhere to in the UK or take advantage of the lower standards in these countries?
- Blist might be accused of being unethical when it comes to minimising its tax bill by shifting operations to low tax countries

2. What impact does an oil company like Blist have on the environment (a) in the short term and (b) in the long term?

Indicative content

- Short term
  Congestion around the plants from transport
  Pollution levels such as air, noise, smell and water pollution
  Issues of waste creation
  Positive spending to meet regulations to reduce pollution
- Long term
  Climate change due to greenhouse gas emissions
  Use of non-renewable resources – resource depletion
  Positive impact on development of new, green methods of energy production such as wind and solar

3. Explain why Blist would like to see the removal of all protectionist policies on oil and other energy products.

Indicative content

- Regulations cost money to adhere to
- Larger companies often benefit from reduced regulation and can take advantage of economies of scale
- Blist would see profits rise
- Freedom of global operations
- Maximise potential

4. What impact do regulations and taxes have on the way in which Blist operates?

Indicative content

- Higher taxes reduce profits
- Stricter regulations add to costs
- Can stifle expansion and development through diversion of funds
- Higher taxes that affect consumers may drive down revenue through lower sales
- Varied regulations across different countries create more work and scrutiny