OBM3102

FOUNDATION IN BUSINESS

SELF INSTRUCTIONAL MATERIALS

ACADEMIC YEAR 2023

FACULTY OF BUSINESS, HUMANITIES & HOSPITALITY

BACHELOR OF COMMERCE (HONS) IN INTERNATIONAL BUSINESS

Topic 3 ▶ The Environment of Business

LEARNING OUTCOMES

By the end of this topic, you will be able to:

1. Explain 5 facts used to measure importance of the business environment;
2. Explain at least 5 types of external environment factors that affect businesses;
3. Explain at least 5 components of an internal environment;
4. Write a SWOT analysis for a business; and
5. Write a PESTLE analysis for a business.

▶ INTRODUCTION

Business environment refers to "the total of all things external to firms and industries which affect their organisation and operation. Business environment encompasses the climate or set of conditions, economic, social, political, or institutional in which business operations are conducted.

3.1 INTRODUCTION ON ENVIRONMENT

When asked "What is Environment?" in fifth grade. I replied, "Everything we depend on." Since then, my perception of the environment hasn't changed much. In the same line of thought let us understand what is meant by the business environment and the importance of the business environment.

A business can be established, but to successfully sustain a business, the business needs resources like finance, for which it has to depend on financial institutions. Acceptance of social norms, for which it has to depend on society. Proper market conditions, for which it has to depend on the market. The sale of products/services, for which it has to depend on the customers. The labour, for which it has to depend on society.

Then there are natural resources and raw material, for which it has to depend on Nature. Also, the legal support of the government, for which it has to depend on the government. There are many factors and dimensions that affect Business Environment. These factors are many different components of a single concept called Business Environment.

These factors which business depends upon aren't standstill, they are very dynamic and ever-changing. For example, trends, the trend of fidget spinners gave the biggest big push the silicone mold industry has ever received.

The changing needs of customers and new innovations in the market are a part of the business environment. The challenge for businesses in this technological era is not to enter the market but to survive in the market. To survive in the market means to adapt to the changes as fast as possible. To adapt to the changes means to be aware of the business environment.

3.1.1 Importance of Business Environment

On the basis of the foregoing discussion, we can say that the Business Environment is the most important aspect of any business. To be aware of the ongoing changes, not only helps our business to adapt to these changes but also to use them as opportunities.

Business Environment presents threats as well as opportunities for our business. A good business manager not only identifies and evaluates the environment but also reacts to these external forces. The importance of the business environment can be neatly understood if we consider the following facts:

1. Enables to Identify Business Opportunities

All changes are not negative. If understood and evaluated them, they can be the reason for the success of a business. It is very necessary to identify a change and use it as a tool to solve the solve the problems of the business or populous.

For example, Mr. Phanindra Sama was troubled by the ticket booking condition in India. He used to travel a long distance to his travel agent to book his ticket but even after traveling this distance he was not sure if his seat was confirmed. He saw the opportunity to establish an app in the face of the problem and co-founded the online ticket booking app called 'redBus'.

2. Helps in Tapping Useful Resources

Careful scanning of the Business Environment helps in tapping the useful resources required for the business. It helps the firm to track these resources and convert them into goods and services.

3. Coping with Changes

The business must be aware of the ongoing changes in the business environment, whether it be changes in customer requirements, emerging trends, new government policies, technological changes. If the business is aware of these regular changes then it can bring about a response to deal with those changes.

For example, when the Android OS market was blooming and the customers were preferring Android devices for its easy interface and apps, Nokia failed to cope with the change by not implementing Android OS on Nokia devices. They failed to adapt and lost tremendous market value.

4. Assistance in Planning

This is another aspect of the importance of the business environment. Planning purely means what is to be done in the future. When the Business Environment presents a problem or an opportunity, it is up to the business to decide what plan would it have to come up with in order to address the future and solve the problem or utilise the opportunity. After analysing the changes presented, the business can incorporate plans to counteract the changes for a secure future.

5. Helps in Improving Performance

Enterprises that are thoroughly scanning their environment not only deal with the changes presented but also flourish with them. Adapting to the external forces help the business to improve the performance and survive in the market.

SELF CHECK 3.1

1. Explain 5 facts used to measure importance of the business environment.

3.2 EXTERNAL ENVIRONMENT

Business environments change frequently and require consideration when planning and conducting operations. Business managers and executives have a responsibility to examine internal concerns for how they may influence company decisions. It's also important to monitor any external environmental factors that can affect how the business functions as well as develop methods for overcoming these challenges.

In this topic, we will discuss what external environment factors are, their importance and nine of these factors that affect businesses.

3.2.1 What are external environment factors?

External environment factors are elements that exist outside of a company's internal environment that can affect a company's operations. These outside forces can help the business or present challenges to its current processes. Managers often keep track of external environment factors so they can recognize and resolve the issues the factors cause and make appropriate changes.

3.2.2 Why are external environment factors important?

External environment factors are important because they can cause direct and indirect effects on business operations, personnel and revenue. The external environment of a company changes constantly in ways beyond the company's control, but executives and managers can track these changes and minimize their consequences. Choosing to monitor the dynamic nature of external environment factors allows businesses to protect themselves against predictable events and mitigate the effects of unexpected changes.

3.2.3 9 types of external environment factors

Here are the nine types of external environment factors that affect businesses:

1. Technological factors

As technology continues to advance, companies can benefit from these breakthroughs or face challenges in competing with them. For example, a company that manufactures GPS devices for personal cars may experience a decline in business because of the integration of GPS on mobile devices, but it can confront these challenges by developing new products. Other companies, such as health care providers, can use modernized methods to collect information from their patients, keep patient records and streamline patient care.

2. Economic factors

The state of the economy plays an important role in every aspect of daily life from the well-being of personnel to the ability of a company to thrive. When the economy trends downward and unemployment rises, businesses may have to work harder to keep their staff and change their processes to continue earning revenue. If the company produces products for retail sale, for instance, it may consider lowering the price to increase sales and positively affect its revenue.

3. Political and legal factors

As political officials leave office and new ones replace them, the policies they implement often affect businesses in relevant industries. Because of the inconsistent nature of politics, businesses monitor legislative bills closely to prepare for potential changes. Policies that can have long-term effects on companies include:

- Taxation
- Tariffs
- Employment law
- Competition regulation
- Import restrictions
- Intellectual property law

Companies affected by political decisions must modify their processes to comply with new legislation and regulations but doing so can keep them in business.

4. Demographic factors

Companies with successful products and services evaluate the demographics of their target market to ensure they meet the needs of those who benefit from their offerings. They also perform tests to measure how well they serve their customers. This helps them understand if their target market has changed and how they can develop better ways to serve their loyal customers and earn new ones. Demographics that affect business decisions and processes include:

- Age
- Gender
- Race
- Nationality
- Belief system
- Marital status
- Occupation
- Income
- Level of education

For example, when mobile phone companies emerged in the 1990s, their marketing efforts focused on young, successful professionals. Now, people of all ages use mobile devices daily. Telecommunications companies have adapted to this change by modifying the features of their products and taking different approaches to advertising methods.

5. Social factors

Where people live, their personal values and their socioeconomic status affect what, where and why people make purchases. Businesses take social factors into consideration when developing and marketing products, and many use current events, movements and social issues to appeal to their customers. For example, a company that supports a women's organization may earn the trust and loyalty of customers who identify as female. Catering to the specific preferences and expectations of underrepresented groups, who have more influence on the market today than in past years, can also contribute to customer satisfaction and business growth.

6. Competitive factors

Businesses can increase their market share and stay relevant to their customers by keeping track of their competitors. They can identify and evaluate successes and challenges, thus learning what to incorporate into their own processes and how to prevent revenue loss. They can also use the information they gather to develop ideas for product changes, product relaunches and new product development.

7. Global factors

Executives have a duty to keep track of both domestic and global issues, especially if they conduct business internationally. By learning about social issues that affect those in other countries and their cultural norms, consumer trends and economic status, company leaders can provide their teams with relevant training. This enables them to develop products or offer services that meet the needs of international customers by providing solutions to challenges they face as consumers.

8. Ethical factors

Because each individual has a distinct concept of ethics and morality, some companies may find it challenging to balance the personal lives of staff members with their expectations in the workplace. Employees' leisure activities, such as social media accounts, can reflect on their employer. As representatives of the company, they have a responsibility to avoid behavior that could negatively affect the business. Managers can address issues such as sharing classified information or the harassment of a colleague outside of work by establishing guidelines and taking disciplinary action when necessary.

9. Natural factors

As environmental awareness continues to grow, more consumers have realized the effects of business processes on the planet. Some consumers have used their purchases to support companies that develop ecologically friendly practices, such as using compostable packaging and solar energy. By paying attention to these external concerns and changing their operations, businesses can make changes that help them protect the environment, retain customers and increase revenue.

SELF CHECK 3.2

Which types of external environment factors affect your business or workplace?

3.3 INTERNAL ENVIRONMENT

When building a healthy work environment, company executives pay attention to many internal factors that impact their organisations. These factors concentrate on how the employees behave and how their supervisors treat them. Learning about the importance of a company's internal factors and environment is an integral element of improving your understanding of human resources management. In this article, we define what an internal environment is and explore its key components.

3.3.1 What is an internal environment?

An internal environment is an important component of the business environment. It concentrates on the various factors that are present within an organisation and can affect how its workforce operates or what values the entire organisation represents. The opposite of this concept is the external environment that consists of factors such as economic, legal, social or global factors, which can influence the organisation's position and operations.

3.3.2 8 components of an internal environment

The internal environment of a company is one of the most important things that you can concentrate on as a human resources manager. To better understand this concept, it's helpful to review its specific components, which include:

1. Value system

The value system of a company refers to the company's goals, norms and moral beliefs that influence a specific mindset of its workforce. Establishing and maintaining a clear set of values creates organisational consistency and integrity, which shows employees what their employer stands for. In many instances, employees may consider the company's specific value system when making important decisions. For example, they're more likely to stay with the company for a longer period of time if they share the same values as their employer. Some common examples of values that often make up companies' value systems include:

- strong work ethic
- honesty
- self-respect
- respect for others
- integrity
- servant leadership
- loyalty

2. Vision, mission and objectives

The company's vision is an idea that executives have about the organisation's future and what it can become. By creating a compelling, coherent vision for the company, they can inspire employees and motivate their desire for success. Most commonly, this element of a business environment clearly articulates the company's measurable aspirations, such as entering a specific market or becoming a leader within their niche. The organisation's mission concentrates on the specific purpose behind a company's existence and how the company plans to serve its customers. For example, this can happen through delivering products or services that simplify their lives.

Both company vision and mission directly impact each organisation's objectives. This is possible because a company objective is a specific goal or outcome that leaders want the organisation to achieve through following its unique values and maintaining its vision. There are several types of objectives that companies can have, including:

- **Economic objectives:** Economic objectives often include making a company profitable through increasing its profits and decreasing expenses. This is often possible through minimising organisational waste and improving the quality of products and services, which directly influences their price.
- **Social objectives:** Social objectives of a company can include its goals to maintain a high standard of its products and services or transition to more sustainable and fair-trade manufacturing processes.
- **Human objectives:** As a part of a company's human objectives, leaders can introduce processes that allow them to take care of their employees' economic or social wellbeing and maintain high levels of employee satisfaction.
- **Organic objectives:** Organic objectives are goals that are a direct result of a company's processes and operations. For example, effectively using profits to raise capital is a common example of an organic objective for businesses.
- **Global objectives:** Global objectives are specific goals that companies want to accomplish to build and maintain their strong position within the global market. For example, they do this by making sure people around the globe can easily access and purchase their products.

3. Organisational structure

An organisational structure of a company is a set of rules that outline reporting processes within the organisation. As part of this important internal factor, companies define the roles and responsibilities of their employees. There are various types of organisational structures that companies can choose to implement, including a hierarchical or matrix organisational structure.

4. Corporate culture

The term 'corporate culture' refers to the beliefs and behaviours that a company encourages, including the way in which employees and managers interact with each other. Creating a healthy company culture is an important goal for many companies regardless of their size, as doing this often helps them make their employees happier and improve employee retention. Although each organisation may choose to create its corporate culture from scratch, here are four common types that businesses can use as inspiration, including:

- **Purpose-driven culture**

Purpose-driven company culture emphasises workforce altruism. Through their own actions and words, organisational leaders inspire employees to contribute to their common, greater good. What makes this type of corporate culture unique is that it makes it easy for employees to unite by their passion for the company's mission statement. For example, a sustainable food manufacturer may consider this type, as it's highly possible that their employees care about promoting a healthy lifestyle and zero-waste consumption popular around the world.

- **Caring workplace culture**

Caring workplace culture is one of the more popular types that companies choose. This corporate culture is often highly collaborative and welcoming. Caring businesses put emphasis on employee diversity and inclusion, it's also important for them to create a work environment in which employees can build healthy professional relationships. One of the primary objectives of a caring workplace is to make it possible for people with different skill sets and talents to work collaboratively to achieve impressive goals.

- **Results-oriented culture**

A results-oriented company culture encourages employees to focus on achieving their individual professional goals, thanks to which they can contribute to their employer's success. Businesses with this corporate culture concentrate on specific outcomes of employees' work to measure their performance, such as if they always meet their monthly targets. For this reason, the primary concern for executives and leaders is continuously increasing workforce performance and efficiency.

- **Playful work environment**

This type of company culture is less popular than the previous three types. In a playful work environment, leaders and employers aim to make working at the company interesting and fun for employees, which also helps them attract highly-skilled candidates and top talent in the industry. To achieve that, they may encourage spontaneity and even a bit of weirdness of employee behaviour. It's also important for them to approach employee assessment and similar processes with a bigger sense of humour.

5. Management style

Management style is a specific way in which managers approach their leadership responsibilities. By following one style of management, supervisors can ensure the team collaborates well and encourage a positive work environment. There are many types of management that employers can consider for their managers, including:

- **Autocratic management style:** An autocratic manager rarely listens to other employees' feedback when making decisions. This style of management can be highly effective in fast-paced companies where employers require that employees complete tasks quickly and efficiently.
- **Democratic management style:** Democratic managers are happy to consider everyone's opinions and ideas. Typically, they try to make decisions that the majority of the workforce finds useful and positive.
- **Persuasive management style:** A persuasive manager makes their own decisions, but tries to provide the workforce with realistic reasoning behind their decisions. This style can be effective when an employer wants to maintain high productivity and efficiency levels while making management seem less autocratic.

6. Human resources

Human resources is also a valuable asset of every company that employs people. Thanks to the efforts of human resources professionals, organisations can achieve many of their internal goals. For example, they can source, attract, interview and hire highly-skilled professionals whose expertise is critical to each of those companies' success.

7. Labour unions

Labour unions are a way for employers to unite, as they represent the entire workforce of a company. Through unions, employees can collaboratively ask their managers for a pay rise or notify them that improving their work conditions is necessary. To make labour unions a more effective internal factor of a company, it's crucial that all leaders and managers acknowledge their importance and company-specific rights.

8. Physical and technological resources

Physical resources are tangible assets that a company owns, such as equipment or buildings. These assets are an integral part of many internal processes, including manufacturing products or developing services that companies can launch to make their business offering more competitive. Technological resources, also known as technological capabilities, are each company's technical know-how.

SELF CHECK 3.3

1. List the components of an internal environment that exist at your workplace.

3.4 SWOT analysis

SWOT stands for Strengths, Weaknesses, Opportunities, and Threats, and so a SWOT analysis is a technique for assessing these four aspects of your business.

SWOT Analysis is a tool that can help you to analyze what your company does best now, and to devise a successful strategy for the future. SWOT can also uncover areas of the business that are holding you back, or that your competitors could exploit if you don't protect yourself.

A SWOT analysis examines both internal and external factors – that is, what's going on inside and outside your organization. So some of these factors will be within your control and some will not. In either case, the wisest action you can take in response will become clearer once you've discovered, recorded and analyzed as many factors as you can.

In this topic, we explore how to carry out a SWOT analysis, and how to put your findings into action. We also include a worked example and a template to help you get started on a SWOT analysis in your own workplace.

3.4.1 Why Is SWOT Analysis Important?

SWOT Analysis can help you to challenge risky assumptions and to uncover dangerous blindspots about your organization's performance. If you use it carefully and collaboratively, it can deliver new insights on where your business currently is, and help you to develop exactly the right strategy for any situation.

For example, you may be well aware of some of your organization's strengths, but until you record them alongside weaknesses and threats you might not realize how unreliable those strengths actually are.

Equally, you likely have reasonable concerns about some of your business weaknesses but, by going through the analysis systematically, you could find an opportunity, previously overlooked, that could more than compensate.

3.4.2 How to Write a SWOT Analysis

SWOT analysis involves making lists – but so much more, too! When you begin to write one list (say, Strengths), the thought process and research that you'll go through will prompt ideas for the other lists (Weaknesses, Opportunities or Threats). And if you compare these lists side by side, you will likely notice connections and contradictions, which you'll want to highlight and explore.

You'll find yourself moving back and forth between your lists frequently. So, make the task easier and more effective by arranging your four lists together in one view.

Strengths	Weaknesses
What do you do well? What unique resources can you draw on? What do others see as your strengths?	What could you improve? Where do you have fewer resources than others? What are others likely to see as weaknesses?
Opportunities	**Threats**
What opportunities are open to you? What trends could you take advantage of? How can you turn your strengths into opportunities?	What threats could harm you? What is your competition doing? What threats do your weaknesses expose to you?

3.4.3 How to Do a SWOT Analysis

Avoid relying on your own, partial understanding of your organization. Your assumptions could be wrong. Instead, gather a team of people from a range of functions and levels to build a broad and insightful list of observations.

Then, every time you identify a Strength, Weakness, Opportunity, or Threat, write it down in the relevant part of the SWOT analysis grid for all to see.

Let's look at each area in more detail and consider what fits where, and what questions you could ask as part of your data gathering.

Strengths

Strengths are things that your organization does particularly well, or in a way that distinguishes you from your competitors. Think about the advantages your organization has over other organizations. These might be the motivation of your staff, access to certain materials, or a strong set of manufacturing processes.

Your strengths are an integral part of your organization, so think about what makes it "tick." What do you do better than anyone else? What values drive your business? What unique or lowest-cost resources can you draw upon that others can't? Identify and analyze your organization's Unique Selling Proposition (USP), and add this to the Strengths section.

Then turn your perspective around and ask yourself what your competitors might see as your strengths. What factors mean that you get the sale ahead of them?

Remember, any aspect of your organization is only a strength if it brings you a clear advantage. For example, if all of your competitors provide high-quality products, then a high-quality production process is not a strength in your market: it's a necessity.

Weaknesses

Weaknesses, like strengths, are inherent features of your organization, so focus on your people, resources, systems, and procedures. Think about what you could improve, and the sorts of practices you should avoid.

Once again, imagine (or find out) how other people in your market see you. Do they notice weaknesses that you tend to be blind to? Take time to examine how and why your competitors are doing better than you. What are you lacking?

Be honest! A SWOT analysis will only be valuable if you gather all the information you need. So, it's best to be realistic now, and face any unpleasant truths as soon as possible.

Opportunities

Opportunities are openings or chances for something positive to happen, but you'll need to claim them for yourself!

They usually arise from situations outside your organization, and require an eye to what might happen in the future. They might arise as developments in the market you serve, or in the technology you use. Being able to spot and exploit opportunities can make a huge difference to your organization's ability to compete and take the lead in your market.

Think about good opportunities that you can exploit immediately. These don't need to be game-changers: even small advantages can increase your organization's competitiveness. What interesting market trends are you aware of, large or small, which could have an impact?

You should also watch out for changes in government policy related to your field. And changes in social patterns, population profiles, and lifestyles can all throw up interesting opportunities.

Threats

Threats include anything that can negatively affect your business from the outside, such as supply-chain problems, shifts in market requirements, or a shortage of recruits. It's vital to anticipate threats and to take action against them before you become a victim of them and your growth stalls.

Think about the obstacles you face in getting your product to market and selling. You may notice that quality standards or specifications for your products are changing, and that you'll need to change those products if you're to stay in the lead. Evolving technology is an ever-present threat, as well as an opportunity!

Always consider what your competitors are doing, and whether you should be changing your organization's emphasis to meet the challenge. But remember that what they're doing might not be the right thing for you to do. So, avoid copying them without knowing how it will improve your position.

Be sure to explore whether your organization is especially exposed to external challenges. Do you have bad debt or cash-flow problems, for example, that could make you vulnerable to even small changes in your market? This is the kind of threat that can seriously damage your business, so be alert.

SELF CHECK 3.4

1. Write a SWOT analysis for your business or workplace.

3.5 PESTLE analysis

PESTLE analysis is an incredibly popular business analysis tool. Not only is it extremely easy to use, but it's also very effective. The basic premise of PESTLE analysis is that you analyze a chosen organization from six different perspectives: Political, Economic, Sociocultural, Technological, Legal, and Environmental. By doing so, you unlock a powerful understanding of how a given business is performing from every angle.

Despite its apparent simplicity, many beginners struggle with conducting their own PESTLE analyses. In this article, we want to eliminate any confusion surrounding this unique business analysis tool, demonstrating how you too can use it with plenty of examples.

3.5.1 An Introduction to PESTLE Analysis

As touched on above, PESTLE analysis is a business analysis tool that looks at things from six crucial viewpoints. To conduct a PESTLE analysis, you find as much information as you can about the business, and separate it between the six categories. The key to getting PESTLE analysis right is understanding what each category stands for.

Political

Every organization operates within some kind of political environment. The question is: how does that political environment affect the business itself? In this category, you'll find information about everything from international relations (which can affect an organization's ability to do business across borders) to political instability (which can severely thwart an organization).

Economic

Similarly, every organization is exposed to the economies of the markets in which it operates. The beauty of PESTLE analysis is that you can consider factors as broad or as specific as you like. For the economic factors affecting a business, you can discuss the international economy, national economies, or even regional economies.

Sociocultural

An important part of any business is the consumer. The sociocultural column of PESTLE analysis allows you to explore how trends in society and culture — which are ultimately trends in the consumer — affect a business. For example, if a business sells just one specific product, how is the consumer approach to that product changing?

Technological

Businesses are becoming increasingly technological, hence the importance of the T in PESTLE analysis. This is your chance to explore any of the technological factors affecting a business, including both technological constraints and advancements. This may refer to access to technology within a given region or the development of new technologies within an industry.

Legal

If you're familiar with PEST analysis, you might have noticed that PESTLE analysis is the same thing — just with an added L and E. Of course, the L in PESTLE analysis refers to legal factors. Often, these legal factors have some overlap with political factors — but not always. Examples of topics that might be discussed in this category include trade laws, labor laws, and intellectual property laws, and how each affects a business.

Environmental

A category of growing importance is the environmental one. Many businesses, especially those in primary industry, have some kind of impact on the environment. This part of PESTLE analysis is about knowing what that impact is, what effects that might have, and how businesses can improve in this department.

Simply put, PESTLE analysis is about filling out a brief profile about an organization for each of these categories. As long as you know what to put in each category (which we hope we explained well enough above), then it's just a question of sourcing your data.

Points to Ponder/Takeaways

- There are 5 facts used to measure importance of the business environment.
- There are at least 5 types of external environment factors that affect businesses.
- There are at least 5 components of an internal environment.
- SWOT analysis and PESTLE analysis is used to analyze a business.

References

1. https://www.toppr.com/guides/business-studies/business-environment/introduction-meaning-importance-of-business-environment/
2. https://www.indeed.com/career-advice/career-development/external-environment-factors
3. https://uk.indeed.com/career-advice/career-development/internal-environment
4. https://www.mindtools.com/amtbj63/swot-analysis
5. https://pestleanalysis.com/pestle-analysis-explained-with-examples/