

# Business Environment

1. lecture



**SILESIAN  
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SCHOOL OF BUSINESS  
ADMINISTRATION IN KARVINA

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BUSINESS ENVIRONMENT

# Requirements on Students

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All study materials and information: IS SU

Course evaluation:

1. Seminar paper – deadline 16. 5. 2021 (23:00)
2. Course credit test – at least 60% of the total number of points

# Outline of the lecture

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1. Definition of business environment
  2. Significance of study of business environment
  3. Interaction between business and environment
  4. Characteristics fo business environment
  5. Typology of business environment
  6. Conceptualizing of business environment
  7. Components of business environment
  8. Environmental factors
  9. Changes in business environment
  10. Responses to the changes in business environment
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- Organizations don't operate in vacuum. Each organization operates within a specific environment.
  - Environment of each organization is unique to it and no two organizations operate in exactly the same environment. Thus the business environment is situational. We are talking about environmental uniqueness.
  - Business environment becomes more turbulent and unpredictable. It is important to understand the complexity of the business environment.
  - Understanding of business environment is vital for people or practitioners who wish to gain a fuller understanding of both the context in which business decisions are taken and the major influences in those decisions.
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## Definition of Business Environment

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- Business environment is anything outside which may affect an organization's present or future activities (Kew and Stredwick 2005, 1).
  - Business environment may be seen as presenting a range of threats and opportunities (Wetherly and Otter 2014, 21).
  - Business environment comprises a wide range of influences which affect business activity in a variety of ways and which can impinge not only on the transformation process itself, but also on the process of resource acquisition and on the creation and consumption of output (Worthington and Britton 2009, 5).
  - Environment of business organization consists of the actors and forces that affect organization's ability to build and maintain successful relationships with customers (Kotler and Armstrong 2010, 90)
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## Definition of Business Environment

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Wilson (1992) argues that the business environment may be viewed as:

- An objective fact, a clear, measurable and definable reality.
- A subjective fact, its particular characteristics being dependent on individuals interpretation and perceptions.
- Enacted, where the division between organization and environment is not clear and where the environment is created and defined by individuals.

# Significance of Study of Business Environment

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- To frame policies,
  - To ensure optimum utilization of resources,
  - To analyze competitors strategies and formulate counter-measures,
  - To keep business dynamic and innovative,
  - To provide input for decision-making,
  - To find out the strengths of business,
  - To identify weaknesses of business,
  - To find out the opportunities available to business,
  - To identify threats posed to business,
  - To know the internal environment,
  - To understand market conditions,
  - To understand international events and their impact on business.
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## **Responsiveness**

- Organizations must be able to respond effectively to factors in their environment that affect them.
- Successful organizations will be those that are able to deal effectively with these factors as well as or better than its competitors.

## **Influence**

- Success of organization may also depend on the ability to influence the environment in which it operates to its own advantage.

## **Choice**

- Organizations may be able to choose a favorable environment in which to operate by making decision as for the location of their entrepreneurial activities.
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- **Business environment as an „open system“** – the business organization is in constant interaction with its environment.
  - **Interaction between the internal and external environments** – various external influences affecting organizations are also frequently interrelated.
  - **The complexity of business environment** – external and internal influences are almost infinite in number and variety and no study could hope to consider them all.
  - **Environmental volatility and change** – the business environment is further complicated by the tendency towards environmental change. This volatility may be particularly prevalent in some areas or in some markets or in some types of industry or organization.
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# Typology of Business Environment



- The degree of complexity
  - Simple
  - Complex
- The degree of dynamics of changes in environment
  - Stable
  - Dynamic

		Degree of dynamics	
		Stable	Dynamic
Degree of complexity	Simple	-Stability -Small degree of uncertainty	-High dynamics of changes -High degree of uncertainty
	Complex	-Stability -Middle degree of uncertainty	-Turbulent environment -High degree of uncertainty

# Conceptualizing of the Business Environment

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- **Spatial level**
    - Local level;
    - Regional level;
    - National level;
    - Supranational;
    - International/Global level.
  
  - **Level of influence**
    - *External environment* – forces from outside
      - *General environment* (also known as environment, contextual environment, macro environment) – forces from the environment have a major impact at the level of the industry.
      - *Immediate environment* (also known as task environment, specific environment, near environment, operational environment, micro environment) – forces from the environment relevant to an individual organization within an industry.
    - *Internal environment* – forces from inside
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# Components of the Business Environment



- External business environment
  - Macro environment
  - Micro environment
- Internal business environment

Components of business environment		
	External	Internal
Macro environment	Micro environment	
-Economical -Political -Social -Cultural -Technological -Natural -Demographic -Legal	-Costumers -Competition -Public -Intermediaries -suppliers	-Resources -Management -Strategy -Business culture

## Environmental Factors

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Environmental factors are those events or situations that can have either a positive or a negative impact on organizations.

- **External environmental factors** are events that take place outside of the organization and are harder to predict and control. Some examples of external environmental factors are:
    - factors from macro environment;
    - factors from micro environment (market and industry).
  - **Internal environmental factors** – internal environmental factors are events that occur within a organization. Some examples of internal environmental factors are:
    - strategy;
    - management;
    - business culture.
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# Changes in Business Environment

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- The business environment has been undergoing considerable change in recent years. This situation is not unique to modern times, but the pace of change seems to have been increasing.
  - Of course, not all aspects of the environment are constantly changing.
  - Changes in some aspects of the business environment may bring about changes in others, to express it in terms of a complex system.
  - The elements of the complex system are responding and adapting to each other and are thus causing changes in the system as a whole.
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# Internationalization of the World Economy

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- Internationalization refers to the increasing importance of international trade, international relations, treaties, alliances etc.
  - Process of internationalization is the process of connecting, deepening and expanding international economic relations from the perspective of individual national states.
  - Internationalization is constantly proceeding and is influenced significantly by scientific and technological progress. The process of internationalization of the world economy is a process based on market relations.
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- Globalization describes the process of integration on a worldwide scale of markets and production. For globalization national boundaries are not important economically.
  - Globalization has major implications for companies, even some small companies operating locally may find themselves competing with a foreign multinational company or have to respond to changes in oil prices, for example.
  - Globalization has allowed many companies and some countries to prosper, but in some respects it has also increased global inequalities. Globalization also allows companies to source supplies at lower costs, to learn new competencies, and to further differentiate products.
  - Globalization is a process of closer integration and exchange between different countries and people worldwide, made possible by falling trade and investment barriers, advances in telecommunications, and reductions in transportation costs.
  - These factors reduce the costs of doing business around the world, opening doors to a much larger market than any one home county.
  - The world`s market economies are becoming more integrated and interdependent.
  - Globalization has led to significant increases in living standards in many economies around the world.
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## Stages of globalization

- Globalization 1.0 (1900 – 1941)
  - Basically all the important business functions were located in the home country.
  - Only sales and distribution operations took place overseas (essentially exporting)
  - Firms procured raw materials from overseas.
  - Strategy formulation and implementation (knowledge flows), followed a one-way path – from domestic headquarters to international outputs.
  - The time period saw the blossoming of the idea of MNEs.
- Globalization 2.0 (1945 – 2000)
  - New focus on growing business – needs went unfulfilled and to reconstruct the damage from the war.
  - MNEs began to create smaller, self-contained copies of themselves, with all business functions intact, in a few key countries (Japan, Australia, Western Europe) – significant amounts of FDI
  - It was costly to duplicate business functions in overseas outposts, doing so allowed for greater local responsiveness to country-specific circumstances.
  - While the U.S. corporate headquarters set overarching strategic goals and allocated resources through the capital budgeting process, local mini MNE replicas had considerable leeway in day-to-day operations.



- Globalization 3.0 (21<sup>st</sup> century)
    - MNEs that had been the vanguard of globalization have since become global-collaboration networks.
    - Companies now freely locate business functions anywhere in the world based on an optimal mix of costs, capabilities, and PEST factors.
    - The MNE recognizes from a multinational company with self-contained operations in a few selected countries to a more seamless global enterprise with centers of expertise. Each of these centers of expertise is a hub within a global network for delivering products and services.
    - Creating a global network of local expertise is beneficial not only in service industries, but also in the industrial sector.
    - To increase the rate of low-cost innovation that can then be used to disrupt existing markets, GE organizes local growth teams in China, India, Kenya and many other countries. Many of these low-cost innovations, first developed to serve local needs, are later introduced in Western markets to become disruptive innovations.
    - GE uses the slogan “in country, for country” to describe the local growth teams’ autonomy in deciding which products to develop, how to make them, and how to shape the business model.
    - Some new ventures organize as global-collaboration networks from the start (Logitech).
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- Regionalism – the nation state remains important whereas the process of globalization breaks down the barriers between nation states.
  - Regionalism refers to the distinctive local character of a geographic area, or to the people's perception of and identification with such places.
  - Regionalism is a spontaneous process from within the regions, where the constituent states now experience the need for cooperation in order to tackle new global challenges.
  - Regionalism is thus one way of coping with global transformation, since most states lack the capacity and the means to manage such a task on the national level.
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- Liberalization – means to reduce unnecessary restrictions and controls on business units imposed by government.
  - It means procedural simplification, relaxing trade and industry liberated from unnecessary bureaucratic hurdles.
  - Liberalization was based on the assumption that market forces could guide the economy in a more effective manner than government control.
  - This includes the removal or reduction of tariff obstacles, such as duties and surcharges, and non-tariff obstacles, such as licensing rules, quotas and other requirements.
  - Trade liberalization promotes a free trade marketplace.
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- The last quarter of the twentieth century witnessed the gradual re-emergence of China as an economic power and the collapse of communism in the former Soviet bloc. These two events continue to have significant implications for international relations and the world economy in the twenty-first century.
  - Numerous other developments have also been important in recent year. Among these are (Harrison...):
    - the USA s confirmation as the world s only „superpower“;
    - the economic success of Asia s „tiger economies“;
    - India s rapid economic growth;
    - the growing importance of Latin America s larger states, Brazil and Mexico;
    - the Arab uprising or „Arab Spring“ in a succession of North African and Middle Eastern countries.
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## Technological Changes

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- Technology is one of the main driving forces behind globalization. As with other aspects of globalization, technological changes are not new.
  - Although technological discoveries often draw on the work of many individuals over a long period of time, the pace of technological changes seem to have been accelerating since the late 1970s.
  - This is particularly evident in the case of computer technology, including computerized control systems, computer-aided design and manufacturing, and information and communication technology.
  - The use of computers has affected almost every type of business organization, from the recording and processing of information to the worldwide provision of products and information via the internet. Computer platform gives the company that controls the platform a potential competitive advantage over its rivals.
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## Socio-Cultural Changes

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- Globalization has far-reaching consequences for the way people live their lives.
  - Not only does it bring opportunities for international travel and allow the local supermarket to stock goods from around the world, but it also exposes people to unfamiliar cultures and practices.
  - Cultural changes can be regarded both positively and negatively.
  - Culture is often influenced by religious beliefs. Most of the world's major civilizations are characterized by their religious traditions.
  - Of particular interest is the revival of the influence of Islam, not only in predominantly Muslim countries in Asia, the Middle East, and North Africa, but also in the USA and Europe. Sometimes religious traditions represent important differences of outlook and beliefs, including their perspectives on political issues and business practices.
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## Changes in National Government Policy

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- The interconnectedness that comes with globalization has brought a degree of consensus in national policy-making among the world's leading economies, particularly on macroeconomic policy.
  - This has come about because of three key developments:
    - The end of state economic planning in the former Soviet bloc and China – apparent „triumph“ of the market economies over the centrally planned economies;
    - A gradual synthesis of ideas in modern macroeconomics;
    - The growing influence of international economic institutions such as the IMF, World Bank and WTO.
  - The macroeconomic policy consensus requires national governments to set a budget that balances tax revenue and current expenditure over the economic cycle, whilst pursuing a policy of monetary stability by raising or lowering rates to maintain low inflation.
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# International Financial Crisis

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- In 2008, the difficulties that were being experienced by one or two smaller financial institutions began to spread rapidly to the financial sector as a whole.
  - The financial crisis put pressure on government finances in the countries worst affected and led to falling exchange rates and share prices, and to a shortage of credit finance for companies and consumers.
  - Consumer spending was soon affected. Companies were struggling with falling sales, and rising unemployment became inevitable.
  - By late 2008 the financial crisis had not only spread across much of the world but had also caused a general economic downturn.
  - Changing market conditions demand that many companies devise new strategies as they search for a competitive place in home and international markets and take advantage of emergent market opportunities.
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- Just as free market policies had apparently triumphed as the world was approaching the new millennium, pressure on governments and companies to moderate the harsher aspects of free market was increasing. Even neutral observers are now increasingly emphasizing the need for those engaged in any form of economic activity to be socially responsible.
  - There is a growing expectation that a company should at least be aware of its impact on society and the environment.
  - Examples of this trend include the following:
    - The fair-trade and trade justice movements;
    - Concerns about the impact of production and trade on the natural environment;
    - Pressure on companies to take full account of their corporate social responsibilities.
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## Other Changes in Business Environment

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- **Hyperglobalization** – the world market is seen as a borderless global marketplace consisting of powerless nation states and powerful multinational corporations.
  - **Transformationalism** – sees the process of globalization as bringing about changes in both the power of countries and companies and in national characteristics and culture.
  - **Privatization** – privatization means allowing the private sector to set up more and more of such industries as were previously reserved for public sector. Under it, existing companies of the public sector are either wholly or partially sold to private sector. Privatization of industries means opening the gates of public sector to private sector.
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## Responses to the Changes in Business Environment

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- **Defenders** – business organizations operate in generally placid environments. They do not actively search for new opportunities, but concentrate on maximizing the efficiency of their existing operations.
  - **Prospectors** – business organizations are attracted to turbulent environments. They are constantly experimenting with novel responses to the environment. They thrive on change and uncertainty, but pay little attention to efficiency.
  - **Analyzers** – business organizations are successful poachers. They watch competitors for new ideas and adopt the successful ones.
  - **Reactors** – business organizations make adjustments to their strategy when forced to do so by environmental pressures. They are prepared to change, but they are even more market followers than the analyzers.
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