

External Business Environment – part 1



**SLEZSKÁ
UNIVERZITA**
OBCHODNĚ PODNIKATELSKÁ
FAKULTA V KARVINĚ



Financováno
Evropskou unií
NextGenerationEU



**NÁRODNÍ
PLÁN OBNOVY**



MINISTERSTVO ŠKOLSTVÍ,
MLÁDEŽE A TĚLOVÝCHOVY

Ing. Lucie Reczková

Název projektu: **Rozvoj kompetencí pro udržitelnou budoucnost na Slezské univerzitě v Opavě**

Reg. č. projektu: **NPO_SU_MSMT-2122/2024-5**



Lecture outline



**SLEZSKÁ
UNIVERZITA**
OBCHODNĚ PODNIKATELSKÁ
FAKULTA V KARVINĚ

- **External business environment**
 - **General business environment**
 - **PESTEL**
 - **The impact of business on the environment; the environment influencing business**
 - **The future of the relationship between environment and business**
 - **EU Taxonomy**
-

Reading material



**SLEZSKÁ
UNIVERZITA**
OBCHODNĚ PODNIKATELSKÁ
FAKULTA V KARVINĚ

- **The_Business_Environment_A_Global_Perspective_----1. Chapter External environment**
 - **Environment and business- CH1 the nature of the relationships**
 - **https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities/eu-taxonomys-uptake-ground_en**
 - **<https://www.unep.org/interactive/global-environment-outlook/>**
-

Recap from last lecture

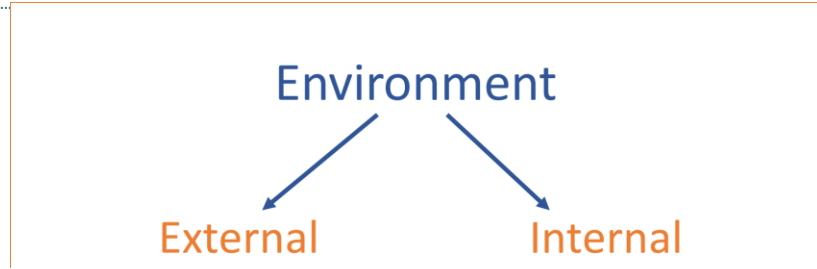


What is business environment?

‘Environment’ general concept covers all forces influencing any aspect of organisation and its activity.

‘Business’ is any type of organisation => **commercial, government, non-for-profit**

‘Business Environment’ - encompassing any and all in which are external and internal organisation in question.



Sustainable development goals (SDG)

Do you know the 17 Sustainable development goals?

Let's watch together

<https://www.youtube.com/watch?v=e2S9wf5oVT4>

<https://www.youtube.com/watch?v=qfOgdj4Okdw>



The European Green deal

Striving to be the first climate-neutral continent

Very ambitious plan

raising economic output while reducing negative

- Climate change and environmental degradation are an existential threat to Europe and the world.

To overcome these challenges, the European Green Deal will transform the EU into a modern, resource-efficient and competitive economy, ensuring:

- no **net emissions** of greenhouse gases by 2050
- economic growth **decoupled** from resource use
- no person and no place left behind.



Sustainability

Three broad areas – economic, societal, and environmental

A development that ‘meets the needs of the present without compromising the ability of future generations to meet their own needs’.

Circular economy



The circular economy is a model of production and consumption, which involves:

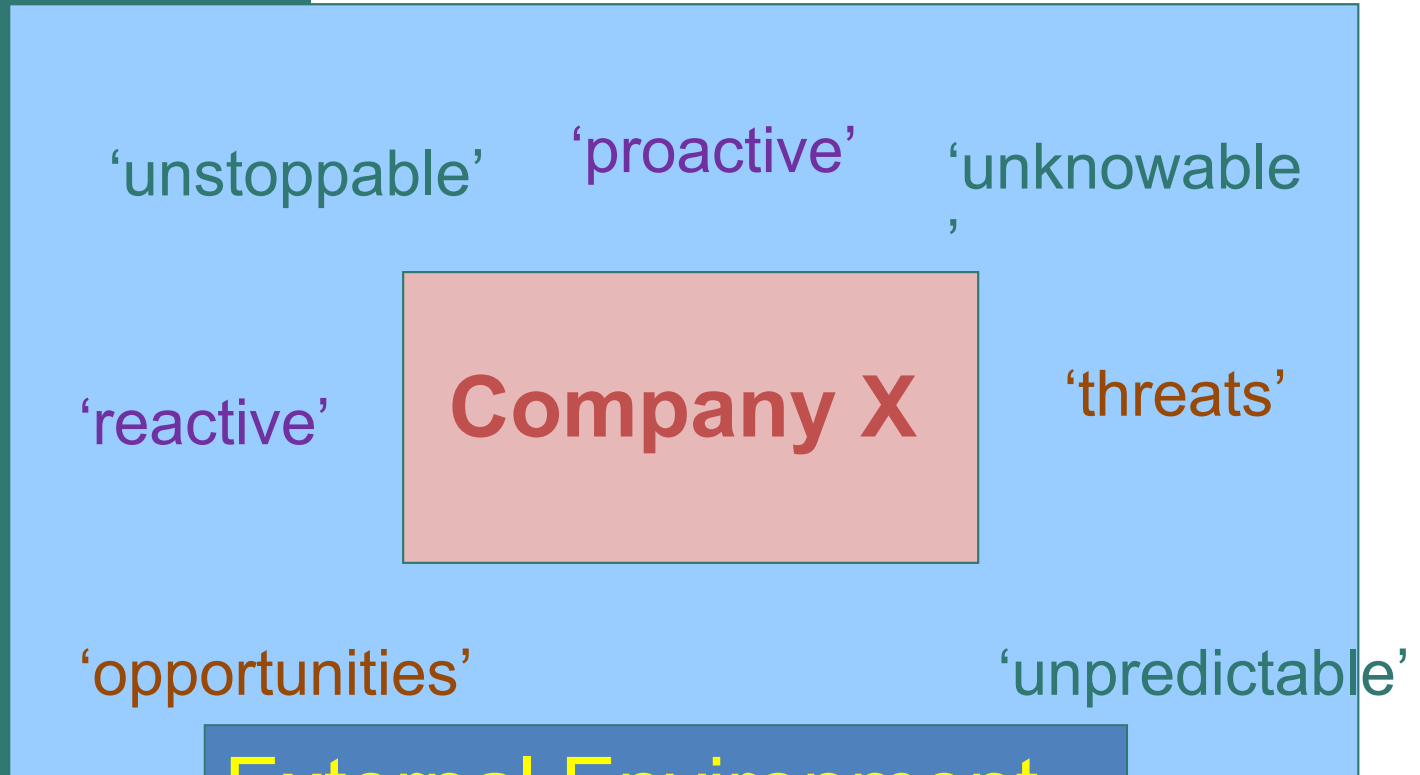
- > sharing,
- > leasing,
- > reusing,
- > repairing,
- > refurbishing and
- > recycling

existing materials and products as long as possible. In this way, the life cycle of products is extended.

External business environment

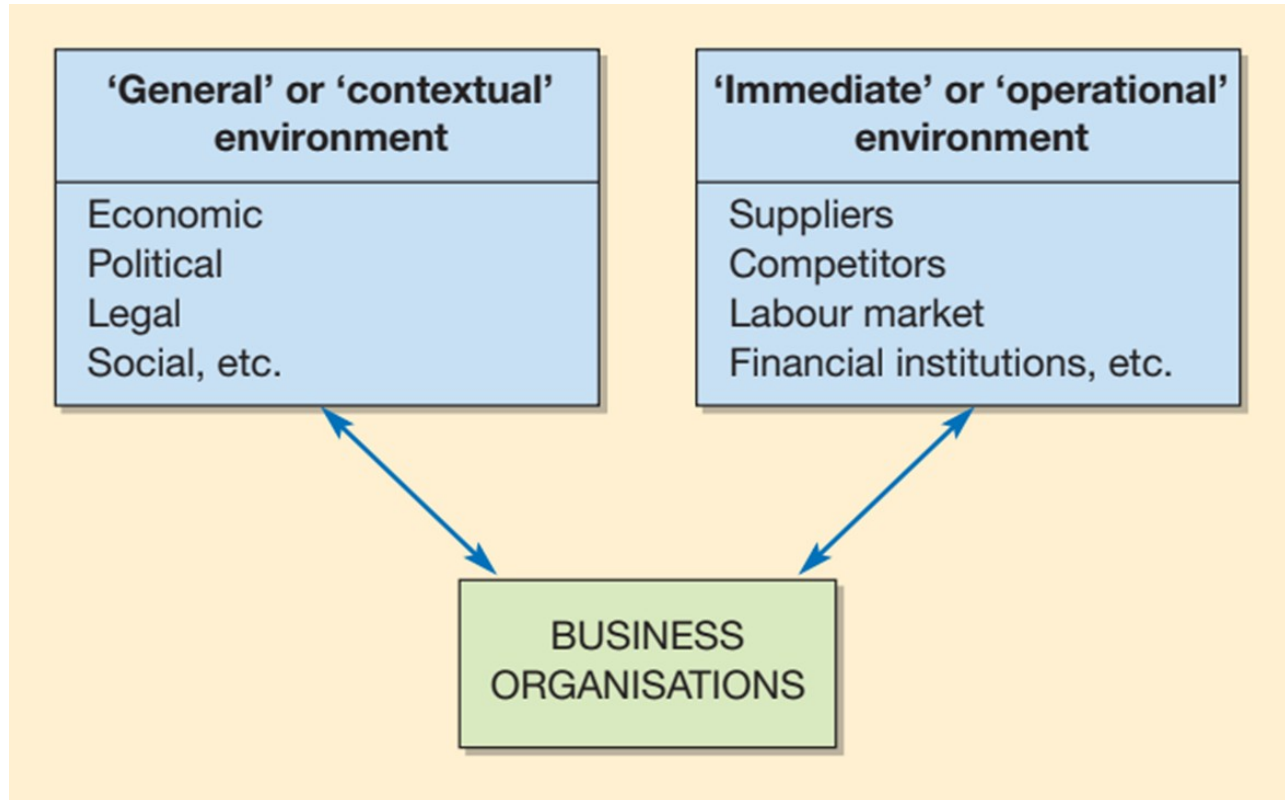


SLEZSKÁ
UNIVERZITA
OBCHODNĚ PODNIKATELSKÁ
FAKULTA V KARVINĚ



External Environment

External business environment



General (contextual) environment



- general background where all companies operate
 - can emerge not only from local and national sources, but also from international and global sources.
 - macroenvironmental forces: economic, political, socio-cultural, demographical, technological, legal, ethical, and ecological.
-

General (contextual) environment



- These factors act on companies and industry environment.
- These factors are so large that the business cannot control them and hardly influence them (there are some attempts to influence these factors).

Question: how can companies influence the macroenvironmental forces?

Macroenvironmental factors



**SLEZSKÁ
UNIVERZITA**
OBCHODNĚ PODNIKATELSKÁ
FAKULTA V KARVINĚ

P = Political

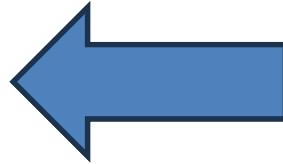
E = Economic

S = Social/cultural

T = Technological

E = Ethical/Ecological

L = Legal



We need to analyse them

Why companies need to analyse these factors?

- To understand these forces and on the basis of understanding them find out the opportunities and threads and therefore to be able to do strategic planning.
-

PESTEL analysis answers four key questions:

1. What environmental factors are affecting the industry/organisation?
 2. Which of these are the most important for a company at the present time?
 3. Which will be the most important for a company in the next few years?
 4. What factors might represent opportunities or threats for a company (used in SWOT analysis)?
-

What is the political situation? How can it affect us?

- **A Politics** - is a universal activity to resolve any conflicts or problems at the state level that affects (not only) businesses of all types and sizes.
 - **A Government** - refers to the institutions through which power tends to be formally and legitimately exercised.
 - Government can be cabinets, parliaments, councils, committees or congresses.
 - Government comprises of individuals and groups who at a particular time have the responsibility for controlling the state.
-

- Government's direct and indirect activities influence business activities.
- Government can be seen as the biggest business on the national level.

1. The nature of political system and its institutions –

A political system refers to the organization and structure through which a society governs itself, encompassing various institutions and processes that manage power, authority, and decision-making within a community.

2. Stable government system – is one that survives through crises without internal warfare (engagement in war or conflict)

PESTEL - Political factors



SLEZSKÁ
UNIVERZITA
OBCHODNĚ PODNIKATELSKÁ
FAKULTA V KARVINĚ

3. Ease of doing business - measures an economy's performance with respect to a measure of regulatory best practices

Easy of doing business by World Bank, discontinued from 2022, awaiting new form of assessing business and investment.

<https://data.worldbank.org/indicator/IC.BUS.EASE.XQ>

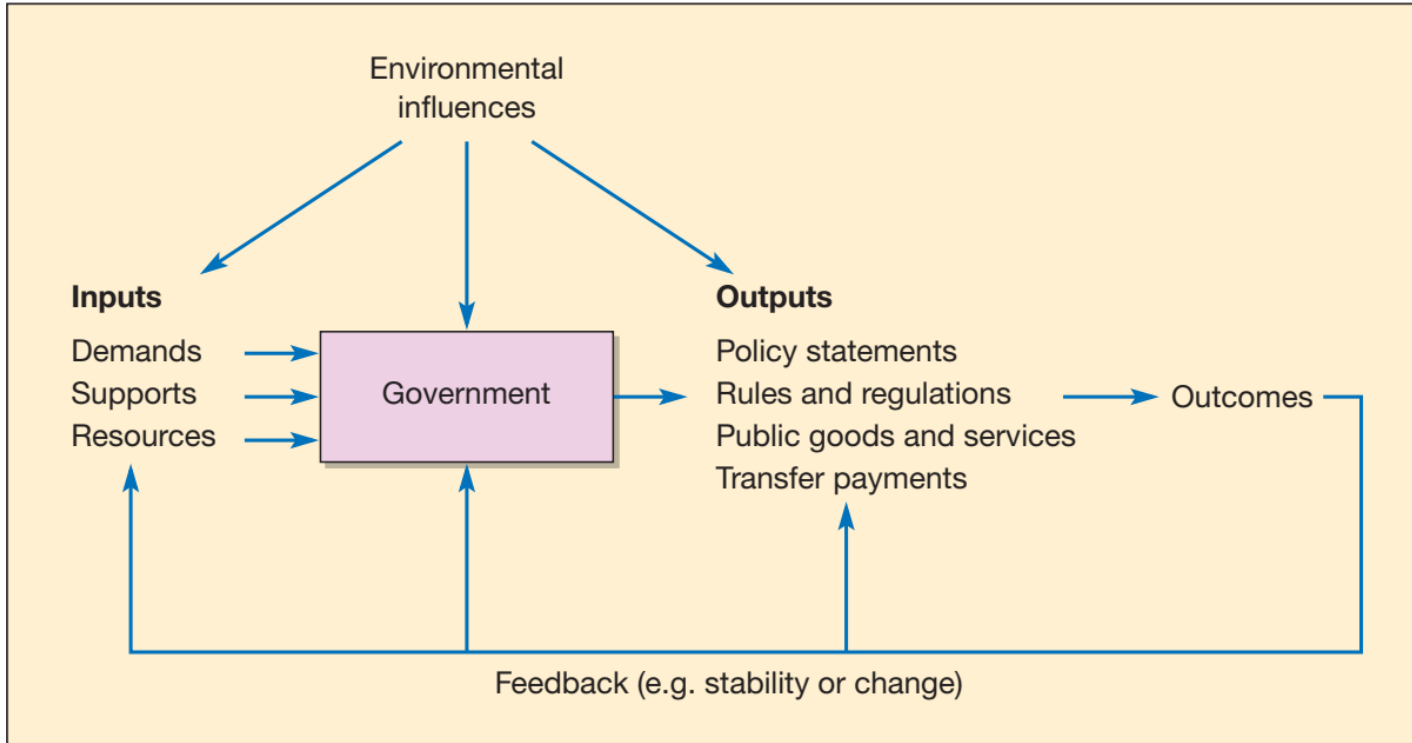
Czech Republic – rank 41

Can you find out how is your country doing?



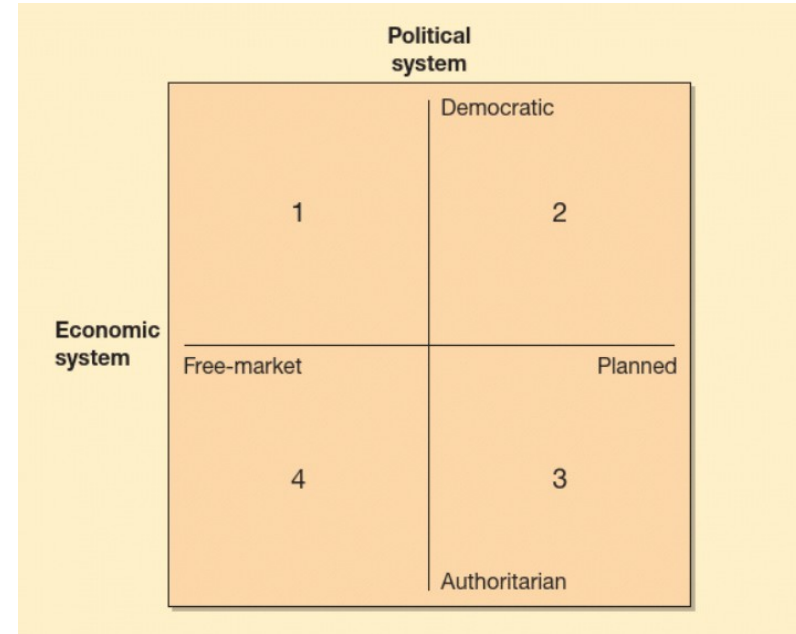
4. Influence of public opinion on political policy –
 - (1) how much impact it has;
 - (2) how much the impact increases as the importance of issues increases;
 - (3) to what extent the impact of public opinion may be negated by interest groups, social movement organizations, political parties, and elites;
 - (4) whether responsiveness of governments to public opinion has changed over time.
-

PESTEL - Political factors



What are the prevalent economic factors?

- Economic system is very closely related to the political system
- Political system – Degree of public involvement in decision making
- Economic system – the level of state intervention in process of allocation of resources



What kind of resources the government has to satisfy the needs of the society and how it is going to distribute/allocate them.

Example: spending on healthcare, building/maintaining roads...

3 main questions:

- What to use the resources for?
 - How to use those resources in the best way?
 - How to distribute the products and services made out of those resources?
-



Centrally planned economy

- Owns and controls the main economic resources
 - Establish priorities in the use of the resources
 - Sets output targets for businesses, largely under state ownership and control
 - Directs resources in an effort to achieve these targets
 - Sets to coordinate production
-



Free market economy

- Resources and firms in private ownership
 - They are free to use those resources as they wish
 - Decisions on resources allocation result of system of markets and prices
 - Consumers dictate the patterns of supply and such also the pattern of resources allocation
-

PESTEL - Economic factors



**SLEZSKÁ
UNIVERZITA**
OBCHODNĚ PODNIKATELSKÁ
FAKULTA V KARVÍNĚ

1. General economic confidence, economic cycle- where is the economy now
 2. Government statements, plans, spending, taxes
 3. Employment – levels, prospects, common beliefs
 4. Housing market
 5. Interest rates
 6. Exchange rates
 7. Inflation rates
 8. Disposable income level (disposable income - income remaining after deduction of taxes and social security charges, available to be spent or saved as one wishes)
-

What are the determinant social attitudes, trends, and behaviors? What (were) are the demographic trends? How much does these affect us as a company?

Demographic factors

1. The size of the population – implications on workforce, size of the market, public expenditure etc.
 2. Age and gender distribution – western population is ageing, demographic time bomb – implications for demand for public and private goods
 3. Population change – the birth rate, the death rate, net migration
-

Social factors

1. Social class – education, income, occupation
 2. Lifestyle – the way we live, how we spend money
 3. Family life cycle – changing pattern of consumption from being a child in a family to being a parent
 4. Reference groups – individuals or groups of people that influence us during our lifetime in terms of opinions, values, attitudes.
-



Cultural factors

1. Influence on individual's response to product and nature of buying and selling process.
 2. Set of values, norms, beliefs, attitudes, customs, systems and artifacts.
 3. Some parts of culture can be changed, but some can't.
-

PESTEL - Technology and natural resources factors



SLEZSKÁ
UNIVERZITA
OBCHODNĚ PODNIKATELSKÁ
FAKULTA V KARVINĚ

What technological advances and innovations we should be looking at?

What natural resources do we need and how do we get them?

1. Technological change – information technology, new materials, biotechnology, energy
 2. Technology and investment – product and process innovation
 3. Research and development – base for technological change
 4. Limits to a technological change – high level of unemployment and exhaustion of natural resources
 5. Natural resources – uneven distribution can lead to use as economic and political weapons (Trump –Ukraine and Greenland, Congo)
 6. Use of AI and AI development
(<https://www.instagram.com/reel/DGb04tnITAy/?igsh=QkE2ZVRMYmNiRA%3D%3D>)
-

How might environmental changes help or hinder our strategy?

1. Global warming
 2. Pollution and waste
 3. Environmental legislation - Carbon trading, environmental taxes, environmental subsidies
 4. Pressure groups – social media increases reach and impact
 5. Eco-label – environmentally safe product
-

PESTEL - Ecological and Ethical factors



SLEZSKÁ
UNIVERZITA
OBCHODNĚ PODNIKATELSKÁ
FAKULTA V KARVINĚ

1. Corporate Social Responsibility – integrate social and environmental concerns in their business operations and interactions with their stakeholders.
2. Social welfare concerns – public becoming more vocal, fair trading, food miles, child workers.

USA – scraping of DEI (diversity, equity and inclusion) policies mainly in big corporations

What are the legal factors, limitations or upcoming changes that affect our ability to operate?

- Employment legislation
 - Consumer law
 - Healthy and public safety
 - Local trade regulation and restrictions
 - International trade regulation and prohibitions
- It is crucial for an organization to know what is legal and allowed within the territories of the country they operate. They also must be aware of any possible change in laws or legislation in the country and its impact on industry operations.
-

PESTEL – Quiz



**SLEZSKÁ
UNIVERZITA**
OBCHODNĚ PODNIKATELSKÁ



SILESIAN
UNIVERSITY
SCHOOL OF BUSINESS
ADMINISTRATION IN KARVINA

Join at:
vevox.app

ID:
126-593-954



The session has not started

START SESSION



RE-OPEN



PESTEL STANDS FOR

1/5



The impact of business on the environment; the environment influencing business



**SLEZSKÁ
UNIVERZITA**
OBCHODNĚ PODNIKATELSKÁ
FAKULTA V KARVINĚ

Environment

=> **'surroundings' and this can be interpreted in many ways**

1. Physical environment - to include both the tangible elements and the processes of the physical world
2. Environment - factors as the behaviour of the market, the international economy, the legal framework, competitor activity and consumer behaviour



- 1. Physical environment** - the tangible physical resources of the globe, the atmosphere, the land surface, rocks and minerals, plants, animals and the seas. It is also taken to include the physical and biological processes that go on close to the surface of the earth independently of any input from humans, although they are constantly modified by the actions of man. These processes result in the movement of water, energy, biological organisms and other essential compounds within the physical world.
 - 2. Environment** - the business paradigm understands the surroundings not in terms of a physical entity but rather as such factors as the behaviour of the market, the international economy, the legal framework, competitor activity and consumer behaviour.
-

The impact of business on the environment



**SLEZSKÁ
UNIVERZITA**
OBCHODNĚ PODNIKATELSKÁ
FAKULTA V KARVINĚ

- Some of the business are more closely linked to the environment than others.
 - The individual company will impact the environment in a variety of ways. We would expect that as the impact on the environment increased, so a firm would become more concerned with its relationship with the environment, although this may not be the case.
 - **The business has two effects on the environment and environmentalism:**
 - First, it changes the environment either directly or indirectly as a result of its commercial activities.
 - Second, it influences environmental legislation and the attitudes of government, society at large and other organizations.
 - Businesses are not only subject to influence from other organizations but also from the collective pressure exerted by individuals in society.
-

The environment influencing business



The ways in which the physical environment influences business operations.

- Mainly concerned with either systematic changes in environmental conditions, e.g. global warming, or
 - as a result of sudden and unexpected ‘natural’ events such as floods, storms or earthquakes.
 - What is important to realize is that business behaviour is adjusted to expected variations in physical conditions.
 - Just as companies successfully operate within an envelope of changing economic conditions—economic growth, inflation, unemployment, etc., so they operate within an envelope of varying physical conditions.
-

The environment influencing business



SLEZSKÁ
UNIVERZITA
OBCHODNĚ PODNIKATELSKÁ
FAKULTA V KARVINĚ

There are number of ways in which the natural environment can influence a business, which result from one of three broad causes:

1. **the absence of physical resources** (raw materials or natural elements to produce raw materials); this usually comes about due to the raw materials having been used up;
 2. **presence or absence of land with the required physical attributes;**
 3. **changes in the prevailing environmental conditions.** These changes may be systematic and **predictable** or sudden and **unpredictable**.
-

The environment influencing business



SLEZSKÁ
UNIVERZITA
OBCHODNĚ PODNIKATELSKÁ
FAKULTA V KARVINĚ

- Most influences are predominantly long term, such as those relating to **changing climate, sea level or soil structure changes.**
- A distinction should be drawn between a real change that exerts an influence on business and a perceived change for which society legislates and with which a business is required to comply.

A real change - rising sea levels will directly force a coastal business to move or carry out some flood protection work.

A perceived change - a government demand for a company to reduce its emissions of carbon dioxide and so contribute to international targets of greenhouse gas reduction intended to mitigate global warming, will indirectly help to prevent sea levels from rising and thus prevent flooding.

The environment influencing business



SLEZSKÁ
UNIVERZITA
OBCHODNĚ PODNIKATELSKÁ
FAKULTA V KARVINĚ

- The natural world is constantly evolving and while a state of dynamic equilibrium exists, **nature is not static**.
 - Some insects have become resistant to certain pesticides.
 - Hydrological variations in precipitation amounts and distribution coupled with naturally varying groundwater and run-off levels have resulted in changes in agricultural practices.
 - As populations grow, the physical limit of some migratory agricultural practices in the drier parts of Africa puts an absolute physical limit on the available physical resources.
-

The environment influencing business



- **the exhaustion of minerals** may result in businesses needing to seek exotic sources or materials substitution if they are to continue in business (circular economy).
 - **Overfishing** has resulted in the demise of the North Sea herring industry. Some agricultural lands now been abandoned (badlands of the plains of the United States due to extensive dryness and erosion).
 - Tertiary sector (tourism and services): **the decline of big game** from the plains of parts of Africa – decline in tourism and big ecological footprint.
 - “Conservationists who support trophy hunting as a means of raising funds for preserving wild areas and wild animals have always argued that ‘if it pays, it stays’. But new studies seem to indicate that the financial contribution of trophy hunting to conservation in Africa is negligible, and the practice could soon become an anachronism (it is sport placed in a bad time)”
-

Let's watch



SLEZSKÁ
ZITA
ODMIKATELSKÁ
LAVINE



WILL THE OCEAN EVER
RUN OUT OF FISH?



EU Taxonomy

The Green Deal

The European Commission has adopted a set of proposals to make the EU's climate, energy, transport and taxation policies fit for reducing net greenhouse gas emissions by at least 55% by 2030, compared to 1990 levels.

- The EU taxonomy is a cornerstone of the EU's sustainable finance framework and an important **market transparency tool**.
- It helps direct investments to the economic activities most needed for the transition, in line with the **European Green Deal objectives**.
- The taxonomy is a classification system that defines criteria for economic activities that are aligned with a net zero trajectory by 2050 and the broader environmental goals other than climate.



SLEZSKÁ
UNIVERZITA
OPAVĚ
PRŮMYŠLOVSKÁ
FAKULTA

Overcoming
challenges
such as
climate
change and
environmental
degradation:
1. no net
emissions of
greenhouse
gases by
2050
2. economic
growth
decoupled
from resource
use



Taxonomy



- The EU taxonomy allows financial and non-financial companies to share a common definition of economic activities that can be considered environmentally sustainable.
 - It plays an important role in helping the EU scale up sustainable investment, by creating security for investors, protecting private investors from greenwashing, helping companies become more climate-friendly and mitigating market fragmentation.
 - The Taxonomy Regulation entered into force on 12 July 2020. It establishes the basis for the EU taxonomy by setting out the 4 overarching conditions that an economic activity has to meet in order to qualify as environmentally sustainable.
-

Companies

- Companies have started using the Taxonomy to plan and highlight their green investments. On average, around 20% of companies' capital investments are aligned with the Taxonomy. The highest investments are made in the **utilities sector, in particular by electricity providers** (over 60% Taxonomy-aligned).
 - Capital investments into Taxonomy-aligned activities have increased in 2024 compared to the previous year. In 2023, around 600 European companies reported capital investments into Taxonomy-aligned activities of €191bn. Thus far in 2024, companies have already reported €249bn.
 - This adds up to a total of €440bn in 2023 and 2024 so far (as of 6 May 2024). These numbers are expected to grow further as companies start to report on the four environmental objectives of the Taxonomy, increasing the scope of eligible companies.
-

Public sector

- In 2023, 90% of green bonds issued by EU public actors mentioned the EU Taxonomy to illustrate their commitment of using the raised funds for green projects.

Banks & financial markets

- Banks are starting to use the Taxonomy in their lending strategies and in their assessment of companies' investment plans. Mortgages and other loans to activities in the scope of the Taxonomy represent, on average, over 50% of the assets of large EU banks based on first-year figures.
-

Investors

- 56% of EU funds either promote environmental or social characteristics or have a sustainable investment objective as disclosed according to the Sustainable Finance Disclosure Regulation (SFDR).
 - The assets aligned with the Taxonomy form a small, but growing part of what these funds invest in.
-

References



- Brooks, I. (2010) The international business environment.: challenges and changes. Pearson Prentice Hall.
 - Arshed, N., McFarlane, J., & MacIntosh, R. (Eds.). (2016). Enterprise and its business environment. Goodfellow Publishers, Limited.
 - Worthington, I., Britton, C., & Thompson, E. (2018). The business environment : A global perspective. Pearson Education, Limited.
 - https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities/eu-taxonomys-uptake-ground_en
 - Blair, A., & Hitchcock, D. (2000). Environment and business. Taylor & Francis Group.
 - <https://www.unep.org/interactive/global-environment-outlook/>
-