

3.0 BUSINESS ENVIRONMENT

Objectives of the Lesson;

After the lesson, student should be able to:

- Explain the meaning of Business Environment;
- Identify the features of Business Environment;
- Describe the importance Business Environment
- Describe the components/types of Business Environment;

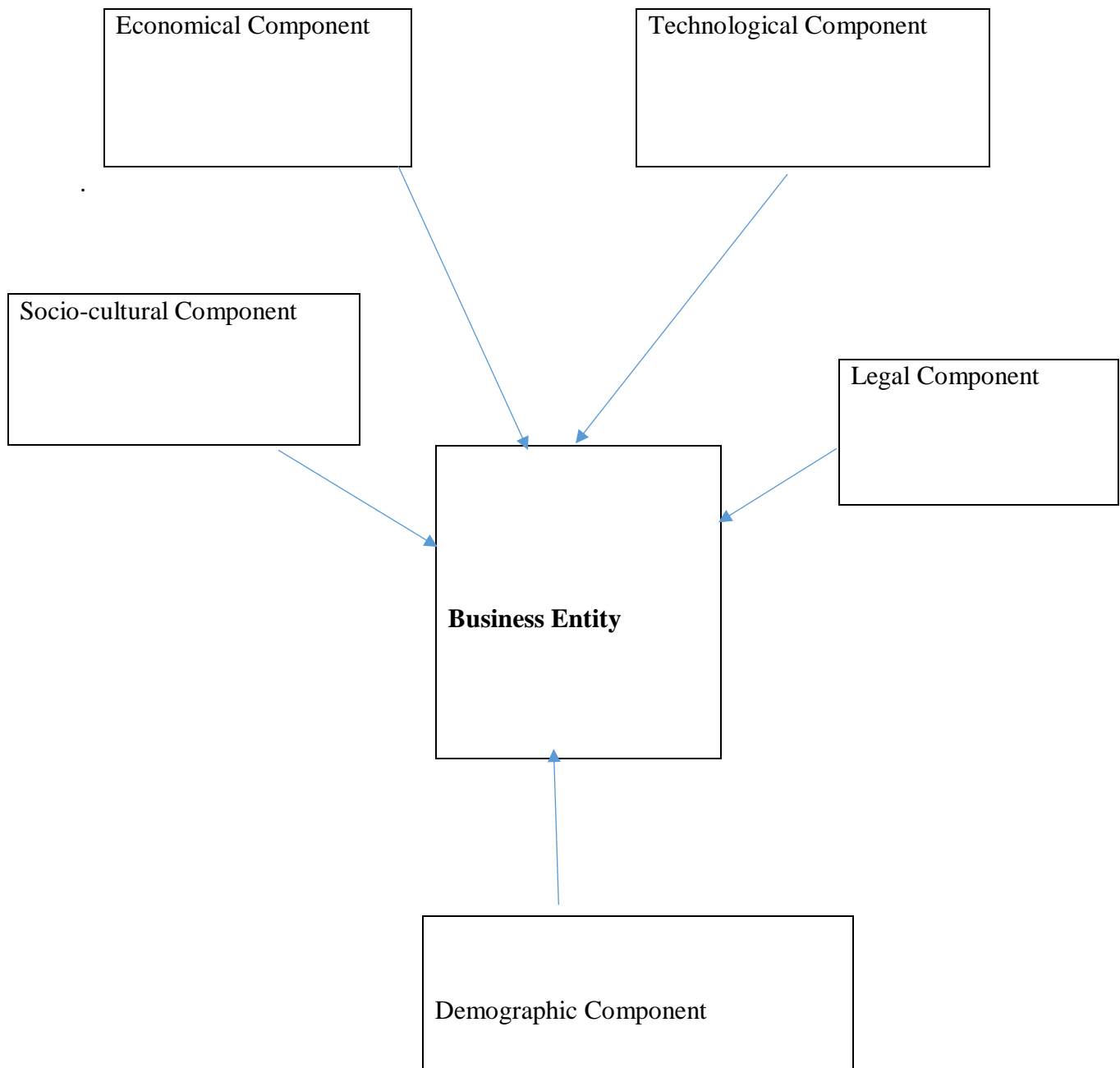
Definition: Business Environment is the sum total of all external and internal factors that influence a business. It may also involve the interaction of external factors and internal factors which influence each other and work together to affect a business.

- Internal business environment includes factors within the organization that impact the approach and success of your operations. Some internal factors of a business include its value system, mission and objectives, and internal relationships.
- External factors of a business include competitors, economic factor, political factors and technological factors amongst others.

Importance of Business Environment Analysis:

It is important to understand the environment within which the business operates in order to run it successfully since environmental factors influence almost every aspect of business such as its; nature, location, the prices of products, the distribution system, the personnel policies among others. There is there a close and continuous interaction between the business and its environment which if analyzed/projected correctly can facilitate business resilience and strength through the effective use of resources.

This can be illustrated as follows:



The level to which a business is successful depends on how well it adapts to various environmental environments/components. An analysis therefore of the various components in the Business Environment (demographic, economic, socio-cultural, political framework, legal and the

technological components among others) often determines key entrepreneurial decisions as to the business' viability or unviability. A proper analysis of the above factors illuminates;

- **Opportunities and Threats:** The interaction between the business and its environment would identify opportunities for and threats to the business. It helps the business enterprises for meeting the challenges successfully.
- **Direction for Growth:** The interaction with the environment leads to opening up new frontiers of growth for the business firms. It enables the business to identify the areas for growth and expansion of their activities.
- **Continuous Learning:** Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in realm of business.
- **Image Building:** Environmental understanding helps the business organizations in improving their image by showing their sensitivity to the environment within which they are working. For example, in view of the shortage of power, many companies have set up Captive Power Plants (CPP) in their factories to meet their own requirement of power
- **Meeting Competition:** It helps the firms to analyze the competitors' strategies and formulate their own strategies accordingly.
- **Identifying Firm's Strength and Weakness:** Business environment helps to identify the individual strengths and weaknesses in view of the technological and global developments.

Types/Components of the Business Environment

Limited to external factors, the Business Environments can be classified into Economic Environment; and Non-Economic Environment.

Economic environment: This is where survival and success of each and every business enterprise depend fully on its economic environment. These includes:

- **Economic Conditions;** The economic conditions of a nation refer to a set of economic factors that have great influence on business entities and their operations and comprise of the gross domestic product, per capita income, markets for goods and services, availability of capital, foreign exchange reserve, growth of foreign trade, strength of capital market etc. All these facilitate or enhance the pace of economic growth.
- **Economic Policies:** All business activities and operations are directly influenced by the economic policies framed by the government from time to time. Some of the important economic policies are: Industrial policy, Fiscal policy, Monetary policy, Foreign investment policy, Export –Import policy (Exim policy),
- **Economic System:** The world economy is primarily governed by three types of economic systems, viz., (i) Capitalist economy; (ii) Socialist economy; and (iii) Mixed economy. Kenya has a mixed economy system which implies co-existence of public sector and private sector

Non-Economic Environment; This can be broken down into several categories of Social, Political, Legal, Technological, Demographic, and Natural Environment;

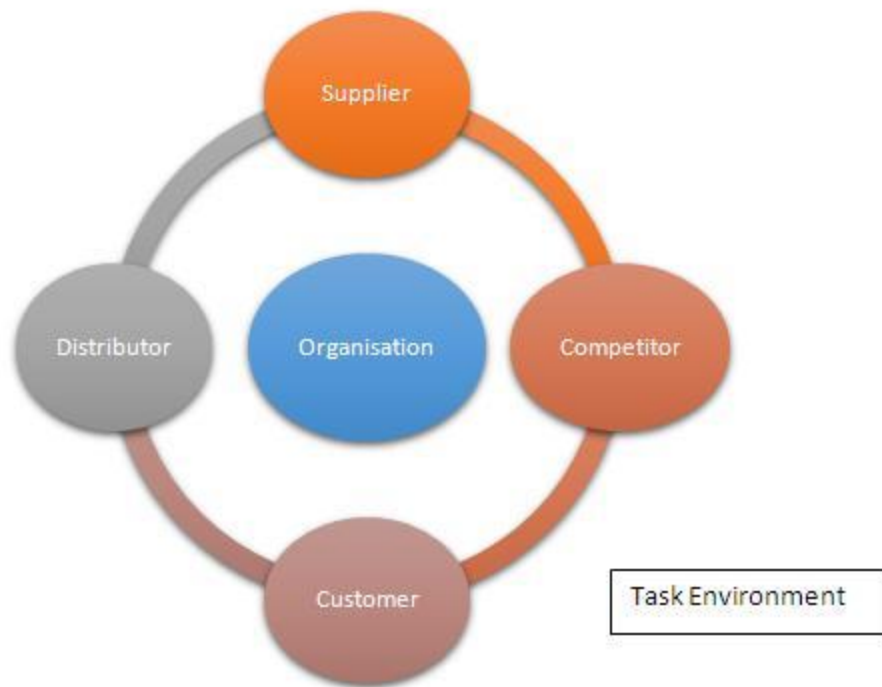
- Social Environment of business includes social factors like customs, traditions, values, beliefs, poverty, literacy, life expectancy rate etc. The social structure and the values that a society cherishes have a considerable influence on the functioning of business firms. For example, during festive seasons there is an increase in the demand for new clothes, sweets, fruits, flower, etc
- Political Environment; Includes the political system, the government policies and attitude towards the business community and the unionism. All these aspects have a bearing on the strategies adopted by the business firms. The stability of the government also influences business and related activities to a great extent. It sends a signal of strength, confidence to various interest groups and investors
- Legal Environment; Comprises of the set of laws, regulations, which influence the business organizations and their operations. Every business organization has to obey, and work within the framework of the law. The important legislations that concern the business enterprises include: Companies Act, Labour and Employment Act, Standards and Weight Measures Act etc, Relevant Constitutional Provisions and Judicial Review Decisions
- Technological environment; include the methods, techniques and approaches adopted for production of goods and services and its distribution. The varying technological environments of different countries affect the designing of products. For example, in USA and many other countries electrical appliances are designed for 110 volts. But when these

are made for India, they have to be of 220 volts. In the modern competitive age, the pace of technological changes is very fast.

- **Demographic Environment;** refers to the size, density, distribution and growth rate of population. All these factors have a direct bearing on the demand for various goods and services. For example, a country where population rate is high and children constitute a large section of population, then there is more demand for baby products. Similarly, the demand of the people of cities and towns are different than the people of rural areas. The high rise of population indicates the easy availability of labor. These encourage the business enterprises to use labor intensive techniques of production.
- **Natural Environment;** includes geographical and ecological factors that influence the business operations. These factors include the availability of natural resources, weather and climatic condition, location aspect, topographical factors, etc. Business is greatly influenced by the nature of natural environment. For example, sugar factories are set up only at those places where sugarcane can be grown. It is always considered better to establish manufacturing unit near the sources of input.

Micro/Task Business Environment

Micro Business Environment factors or elements are an organization's immediate area of operations that affect its performance and decision-making freedom. These factors include; Competitors, Customers, Suppliers, the general public, Marketing distribution channels, Workers and labour unions. Usually, Micro-environment factors have direct contact with the business organization and can affect the day to day activities of business straight away but for only a short time. This can be illustrated as follows:



Macro Business Environment

This are the major external and uncontrollable factors that influence a business organization's decision making, and affect its performance and strategies. These factors include the economic factors, demographics, legal, political, and social conditions, technological changes, and natural forces. In general, it comprises of trends in gross domestic product (GDP), inflation, employment, spending, and monetary and fiscal policy PESTLE Analysis. PESTLE stands for the variables that exist in the environment, i.e. Population & Demographic, Economic, Socio-Cultural, Technological, Legal & Political and Environmental. These variables, consider both economic and non-economic factors like social concerns, government policies, family structure, population size, inflation, GDP aspects, income distribution, ethnic mix, political stability, taxes, and duties,

Student Understanding Test

Short Answer Type Questions

1. State any two features of business environment.
2. Mention the different types of business environment.
3. List the various elements of non-economic environment of business.
4. State any two effects of liberalization of Kenya economy
5. How does demographic environment of business influence the business activities?
6. Explain the effect of political environment in the normal functioning of business enterprises.
7. Describe the importance of business environment for the business firm.
8. Explain any two non-economic environment of business.
9. Describe in brief the economic environment of business.

