

3. Business Environment

1 Concept of Business Environment

The combination of various internal and external factors that influence a company's operating situation is known as business environment. Business environment refers to different forces or surroundings that affect business operations. Business environment consists of forces that influence the organization's ability to attain goals. Such forces include customers, competitors, suppliers, distributors, industry trends, substitutes, regulations, government activities, the economy, demographics, and social and cultural factors. Others are innovations and technological developments.

A business organization cannot exist in a vacuum. It needs living persons, natural resources and places and things to exist. The sum of all these factors and forces is called the business environment.

2 Types of Business Environment

Business environment means all things related to business. But these things may be several. So it is good to divide them in major types. It helps to understand business environment properly. Business environment is mainly divided into two types:

- ✚ *Micro environment or the internal environment*

- ✚ *Macro environment or the external environment*

2.1 Internal Environment of Business (*Micro environment*)

All the factors inside a business collectively develop internal business environment. Most of them are controllable. Management easily manage them without any difficult or so much effort. Their significance cannot be overlooked to run the affairs of business smoothly. If any of these factors turn negative it may impede the smooth functioning of the business. Internal environment is located within the organization and provides ***strengths and weaknesses*** to the organization.

A firm's internal environment consists of conditions and forces within its organization. Internal environment comprises of the factors in the immediate environment of the company that affect the performance of the company. Internal environment has three factors which together influence the internal environment.

These three factors are:

- ✚ Human Resource: *Employee's educational level, skill, experience and competence.*
- ✚ Organization structure: *Interdependence among units and functions*
- ✚ Nature of firm's product or service

An Organization's internal environment has the following components.

- ✚ **Organizational Goals.** Goals are desired outcomes. They state end results. They can be multiple. Organizational activities must be conducted within the framework of goals.
- ✚ **Employees.** Employees are the vital part and important assets of an organization. Though they are insiders of the organization, they are an important source of external information. At times, the employees resist managerial, technical and other changes that affect them and their work. Without the cooperation of employees and their productivity, organizations can not attain their expected goals.
- ✚ **Structure.** Structure is the overall framework for organizational roles, rules, hierarchy, relations and authority. Structure also includes individuals, groups, units and their interrelationships. An organization's structure keeps on changing. The periodic adjustments made in the work or functions of individuals, groups or units changes the internal working of the organization.
- ✚ **Organizational Policies.** Policies are guidelines for managerial decision making. Organizations must operate within the policy guidelines.
- ✚ **Organizational Resources.** Resource availability sets a limit on organizational activities. They can be physical, human, financial, information, technical etc.
- ✚ **Shareholders.** Shareholders being the owners of business have a direct interest in the performance of the organization. The directors elected by

them represent their interest in the board. The shareholders expect to get full information from the management on the functioning and financial status of the organization at regular intervals.

✚ **Labor Union** is also an important part of the internal environment of business. Labor union represents the problems and feelings of their members to the managers. In this process, labor and management interact with each other. Organizations must manage their labor relations effectively. They need to cooperate with labor unions for collective bargaining, increased worker responsibility, working conditions, hours of work and participation in management.

2.2 External environment of Business (*Macro environment*)

A business firm is subjected to a complex set of external forces, which are complex and dynamic. Firstly the constantly changing economic, social, cultural, political and technological factors create environmental uncertainty. Secondly the nature of competition in the market also contributes to environmental uncertainty. Thirdly, the frequent changes among suppliers as well as technologies in the market further add to the complexity of external environment. Thus the external influences on a business firm are diverse in nature. The external environment of a business firm thus defines its *opportunities and threats*.

External environment of business comprises of all the factors that are mostly not controllable by the business or beyond its reach to control them as per its requirements. The forces and institutions outside of the organization that can potentially affect the performance of the organization come under the external environment of Business. The external environment of business is often categorized into two interrelated sub categories:

2.2.1 General Environment

2.2.2 Task Environment

2.2.1 General Environment

The general environment affects the organization and its task environment. It is also called *remote environment*. It is composed of a set of forces that are outside the organization's operating system- that is political, economic, social, legal and technological factors. These are the forces which are beyond the control of

business firms. Hence these are uncontrollable factors. The general environment presents opportunities, threats and constraints for the organization.

2.2.1.1 **Economic environment** of a business means how it utilizes its limited resources to make huge production. There are four important variables in economic environment of business. These are land, labor, capital and organization. They are collectively called factors of production. Their best combination with skillful management takes the production level of a business to its optimum level. It is called ultimate success of any manufacturing concern. The economic environment of business is largely determined by the economic system of the country. The major elements of economic environment are: the system of economic planning and control; fiscal, monetary and industrial policies; the conditions prevailing in agriculture, industrial and service sectors; and a host of other economic conditions prevailing in the country. Poor economic conditions make the environment more complex and managers' job more difficult and demanding. The various economic forces are:

- **Income distribution:** The level and distribution of income affect savings and investment. They influence the market conditions of organizations.
- **Economic Health:** The stage of business cycle- prosperity, recession, recovery- greatly affects the economic health of an organization.
- **Inflation:** It is a rise in price level and leads to increase in wages and prices. Cost and price structure of organizations get affected by inflation.
- **Fiscal Policies:** The government policies regarding taxation and government expenditure affect activities of organizations.
- **Regional economic Groups:** They provide opportunities to members and threats to non- members. ASEAN, SAARC have goals to promote free regional trade. Such groupings affect the activities of organizations.

Organizations must forecast and anticipate economic changes.

2.2.1.2 **Technological Environment** consists of skills, systems and equipment. Technological forces greatly affect organizational goal achievement.

They can either destroy existing organizations or start entirely new organizations. Recent technological advances in computers, information technology, biotechnology, new materials etc. have revolutionized the operations of organizations. These developments not only present enormous opportunities for business organizations in terms of enhanced effectiveness but also place heavy demands on them in the ever increasing competitive markets. Technological forces include:

- **Level of Technology:** It can be labor-based or capital based, appropriate or sophisticated. The level of technology affects the processing and outputs of organizations.
- **Pace of Technological Change:** The pace of technological change is accelerating. Organizations must adapt to such change to promote innovations and avoid technical obsolescence. Technology transfer increases the pace of changes.
- **R & D Budget:** Organizations need to provide adequate R&D budget for technological adaption.

2.2.1.3 **Political environment** of a country has direct impact on external business environment. Good political environment ensures business security. More and more businesses are established in congenial environment. On the other hand if this type of environment is not good, it does not support growth. Investors remain cautious to invest more. Business analysts stress upon the need to enable a congenial political environment in a country. They advise stability in its policies and transparency in governance. It is good to attract more investment particularly foreign investment. The political environment refers to the political structure, composition of bureaucracy, ideology of the ruling government, the political stability, public opinion and government-business relations. Political forces include:

- **Government Policies:** They can relate to trade, industry, investment, environment, foreign exchange etc. Frequent changes in policies adversely affect organizational activities.

- **Government Agencies:** Many government agencies, both at national and local level, function as regulatory agencies. Their activities affect organizations.
- **Political Climate:** Political uncertainties adversely affect organizational operations. Nepal has been experiencing a lot of political uncertainty.

2.2.1.4 **Legal Environment:** The legal environment refers to the framework of laws, regulations and court decisions intended to encourage, guide and control business activities. Some are designed to protect workers, consumers and communities. Others are designed to regulate the behavior of managers and their subordinates in business and other enterprises. Deregulation and privatization are just two examples of legal forces that can create challenges for firms and managers. Other examples include increased emphasis on environmental protection, safety of workers and legal constraints against discrimination.

2.2.1.5 **Socio-Cultural Environment:** Social environment is made up of the social institutions, class structure, desires, expectations, beliefs and customs of people in a given society. Closely associated with social environment is cultural environment that includes values, norms, and accepted behavior patterns of people. These elements of society directly influence business organizations. Managers must be responsive to changes in the social structures and national cultures of the country in which they operate. Socio-Cultural Forces include:

- **Demographics:** Demography is concerned with human population and its distribution. Demographic forces consist of population size and growth, age mix, urbanization and migration. They affect the size, composition and location of labor supply and customers of organizations.
- **Life Style:** It is a person's pattern of living reflected in his activities, interests and opinions. They affect product needs and choices. Organizations need to adapt their products and services to the changes in life styles.
- **Social Values:** They affect attitude and expectations toward organizations and the work itself. Changing social values have significant implications for organizations.
- **Cultural Forces:** Culture is represented by symbols and artifacts (object made a very long time ago) created by a society and handed down from generation to generation. It is represented by customs, traditions, caste, religion, language and works of arts and architecture. Culture may

change over time. Cross-cultural influences are increasing. Organizations must be culture-sensitive.

2.2.1.6 Global environment: Global forces are outcomes of changes in international relationships. International developments have their effects on domestic business. For certain categories of business, global environment is very important. For example, the firms dealing with import-export business are most affected by the changes taking place in the international market. Similarly, the increase in oil price has far-reaching effects on all economies and business firms.

2.2.2 Task environment:

The task environment involves factors in the immediate competitive situation of a particular organization. Forces in the task environment result from the actions of suppliers, distributors, customers, market intermediaries, pressure groups, competitors and general public. These groups affect a manager's ability to obtain resources and dispose of outputs. They pressurize and influence managers on a daily basis. The task environment is also called the *competitive or operating environment*. The task environment differs from the general environment in the sense that it can be influenced or controlled, to some extent, by an organization.

- **Suppliers** form an important factor of the micro environment of business because the importance of reliable sources of supply is obvious. Suppliers include the financial labor input. Stock holders, banks and other similar organizations that supply money to the organization are also termed as suppliers. Managers always strive to ensure a steady flow of inputs at the lowest price.
- **Customers** are also an important factor in the internal environment of business. The customers or the clients absorb the output of an organization and a business exists to meet the demands of the customers. Customers could be individuals, industries, government and other institutions. Customers are not only linked with the business firm for the purchase of goods and services; they are also an important source of ideas, opinions, information and reaction. An organization's success depends on its response to customers.

- **Competitors:** A business firm faces competition in the market. Competition is therefore inevitable. Managers work out strategies to deal with the competitors and the competing products. Information on market behavior and competitors' strategies is gathered and analyzed to identify future opportunities and threats for the firm. Rivalry among competitors is potentially the most threatening force that managers must deal with.
- **Distributors:** Distributors are organizations that help other organizations sell their goods or services to customers. If distributors are so large and powerful that they can control customers' access to a particular organization's goods and services, they can threaten the organization by demanding that it reduce the price of its goods and services.
- **Government:** The role of government is to regulate business systems and to protect the interest of the consumers and general public. Its role is also to protect industries ensuring adherence to free-market principles. The policies and regulations of the government have, therefore, a major impact on the functioning of the business system.
- **Social environment** of business comprises of entire social interaction within the organization. Either it is formal or informal. Formal social interaction takes place in breaks of official meetings, weekly reviews, conference calls. Informal social interaction is usually made during office hours in lunch breaks or tea breaks etc. Internally it is one of the important types of business environment.
- **Ethical business environment** covers ethical values a business upholds in doing business. It mostly pertains to ethics and belief system of the society or country where such business operates.
- **Managerial environment** of a business pertains to entire managerial affairs of a business. It includes surveillance of workers, monitoring of their performance, and evaluation of their progress. It also covers motivating workers to work harder, managing their conflicts, offering incentives to achievers etc. Entire communication within management and with the workers is also part of this environment.
- **Administrative environment** of a business is also more or less same. It reflects the administrative style of the business with particular reference to human resources. Managerial environment is also called life blood of internal environment. It is one of the key types of business environment.

- **Regulatory environment** of business means the compliance of company to all regulations applicable to it. A company fulfills all regulatory requirements to establish. It then runs its business following best corporate practices. Most of the corporations have fully fledged section to help abide by rules and regulations. Their aim is to avoid any kind of legal violation in day-to-day affairs of the business.
- **Financial environment** of business shows the financial structure of the business. It means how a business meets its financial needs and how it manages its financing to run its affairs.
- **Media** is another factor of micro environment. Every action of the organization is subject to media scrutiny. They need a variety of public relations programs to promote and protect their image and products.
- **Pressure Groups** are special interest groups that use the political process to advance their position on a particular issue. They pressurize and lobby governments and organizations to protect their interests. Examples are consumer associations, environmental groups, feminist groups, trade associations etc.
- **Trade Union and relation with management**
An organization whose membership consists of workers and union leaders, united to protect and promote their common interests.
The principal purposes of a labor union are to:
 - ✚ negotiate wages and working condition terms,
 - ✚ regulate relations between workers (its members) and the employer,
 - ✚ take collective action to enforce the terms of collective bargaining,
 - ✚ raise new demands on behalf of its members, and
 - ✚ help settle their grievances.

A trade union may be:

- ✚ A company union that represents interests of only one company and may not have any connection with other unions. Also called house union, a company union is often a bogus (fake) one and generally illegal.
- ✚ A general union that represents workers from several companies in the same industry. Also called industrial union.

- ✚ A craft union that represents skilled workers in a particular field such as carpentry or welding.

Organizations must manage their labor relations effectively. They need to cooperate with labor unions for collective bargaining, increased worker responsibility and participation in management.

3 Governance and Effect to Construction Business

Governance/Corporate Governance

Governance is a system by which business corporations are directed and controlled. Governance is understood in terms of a Board of Directors who represents shareholders. The directors' role is to attract financial and human capital and "perpetuate itself by generating long term economic value for its shareholders, while respecting the interest of shareholders and society as a whole" (Krakovsky, 2002). Corporate governance is also defined as a set of internal rules that indicates distribution of rights and responsibilities among the management, the board, the shareholders and other stakeholders (Petrovic-Lazarevic, 2003).

Corporate governance is the set of processes, customs, policies and laws affecting the way an organization is directed, administered and controlled. Corporate governance also includes the relationship among the many stakeholders involved and the goals for which the organization is governed. The principal stakeholders are the shareholders, management and board of directors. Other stakeholders include employees, suppliers, customers, banks, regulators, the environment and the community at large.

Corporate governance enables business firms to realize their corporate goals, protect shareholder rights, meet legal requirements and demonstrate to a wider public how they are conducting their businesses.

The commonly accepted principles are:

- Right and equitable treatment of shareholders.
- Interests of other stakeholders.
- Roles and responsibility of the board. *(deal with various business issues; review and monitor management performance)*

- Integrity and ethical behavior (*Code of conduct for their directors and executives*)
- Disclosure and transparency.

Effect to Construction business

The construction industry includes the units engaged in the construction and operation of road, bridge, ropeway, railway, tunnel, flying bridge and also those engaged in the construction of industrial, commercial and residential complex. Today, the construction industry is relatively a well developed sector in the country.

The Construction Business Act 1999 is the most recent legal framework that governs the construction industry in Nepal.

The foreign constructions companies have been dominating the Nepalese construction industry. The growth in urbanization gives a boost to construction industry. The construction sector has recorded a satisfactory growth rate in the last few years averaging 4.5% annually while contributing 10 % to the GDP.

This industry is the most important source of employment for unskilled and semi-skilled workforce. Because of the fast urbanization as well as construction of physical infrastructure in the country, this industry has been the single most important source of off-farm employment. This sector is the second largest employed of the country after the agriculture sector.

The construction industry has been facing a number of problems. These are:

- Unhealthy competition
- Lack of enough contract work which causes the capacity of many construction companies remains under-utilized.
- Lack of full time professional and technical staffs
- Little incentives from government
- Lack of one window public procurement policy

- The membership of WTO has added further challenges as it has to face the forthcoming global competition.

The roles of Corporate Governance in Construction business

- Promotion of transparency and efficient markets. Be consistence with rule of law and clearly articulate the division of responsibilities among different authorities.
- Protection of shareholders' rights.
- Equitable treatment to all shareholders.
- Recognition of the rights of stakeholders established by law.
- Ensure that timely and accurate discloser is made on all matters regarding the corporation, including financial situation, performance, ownership and governance of the company.
- Protection of the interests of Construction industries.
- Promotion of construction industries with fair competition.

4. Government policy and its effect

The term government refers to the center of political authority having the power to govern those it serves. The government's basic objectives are to attain economic growth, employment, regional equity, stability in prices and economic stability. To attain these objectives, the government depends on the cooperation of the business sector. The expansion of business activities in a country is the indicator of increased revenues for the government, greater employment and better services to the people.

Business activities cannot flourish if the government does not respond to the problems facing the business sector. The government, therefore, tries to regulate and promote business activities through different policy measures.

The government plays several different roles regarding business. However the following there types of roles of government are the important ones.

- ✚ ***Facilitating Role.*** The government assists the business through the grant of several facilities like finance, provision of essential public services, arrangement of vital inputs at concessional rates etc. It facilitates productive activities by providing administrative and economic infrastructures.

- ✚ ***Regulating Role:*** The government always plays an important regulatory and developmental role. It provides constitutional and legal framework for the conduct of business. It further prescribes the limits of operation and freedom in order to check undesirable tendencies like formation of monopolies, concentration of economic power in a few hands etc.

- ✚ ***Entrepreneurial Role:*** The government promotes the setting up of business enterprises- like public utilities and public enterprises- with a view to spearheading and accelerating the pace of economic growth and development.

The exact role of government will, however, change over time. Governments can become more effective if they use market and market- like mechanisms. They can encourage competition to stimulate market forces. Public and private agencies can be created to compete with each other. Thus, the success of market economies is based on the policies that support incentives built around property rights and competition.

Government Policies can relate to trade, industry, investment, environment, foreign exchange etc. Frequent changes in policies adversely affect organizational activities.

Public policies are the instruments in the hand of the government to regulate business and economic activities. In particular, there are three major types of public policies, which shape the pattern of business-government relationship.

- ✚ Distributive Policies (Such as tariffs)
- ✚ Redistributive Policies (such as progressive taxation and welfare policies)
- ✚ Regulatory Policies (Imposition of rules concerning excessive urbanization, pollution, deforestation etc.)

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