**THE BUSINESS ENVIRONMENT**

**HOW SOCIAL FACTORS AFFECT THE BUSINESS ENVIRONMENT**

Businesses must operate where a society is. Actually some businesses especially those operating on large scale, are mini-societies themselves.

Below is a list of social factors which make up the external and internal social factors affecting business;

* Life styles
* Buying habits
* Education levels
* Emphasis on safety
* Religion and beliefs
* Health consciousness
* Gender distribution
* Average disposable income levels
* Social classes
* Attitudes toward saving and investing
* Population growth rates
* Immigration and emigration rates
* Age distribution and life expectancy rates
* Attitudes toward imported products and services
* Attitudes toward work, career, leisure and retirement

These factors can affect people’s attitudes, opinions and interests towards business and decide whether to involve themselves or not because they directly impact sales of products and services as well as revenues earned.

The social factors shape who we are as people, it affects how we behave and what we buy. A good example is how people’s attitude towards diet and health is changing in Uganda. Because of this, businesses are seeing some changes. More people are joining fitness clubs. There is also a massive growth in demand for organic food.

Population changes are also directly affecting businesses. The supply and demand of goods and services in an economy can change with the structure of the population. Increase in birth rates and immigration mean demand will increase.

Food shortage predictions can lead to call for more investment in food production. For example Uganda is facing food shortage and as such more people are investing in Agriculture as they reconsider rejection of genetically modified foods.

Businesses should be able to offer products and services which aim to benefit people’s lifestyle. The offerings should complement customers’ behavior. Not reacting to changes in the society can be a costly mistake. They might lose market share. Demand for their products and services will fall.

**HOW ECONOMIC FACTORS AFFECT THE BUSINESS ENVIRONMENT**

Economic factors have a great effect on the business environment as they are essential for making smart decisions and guiding your company to greater heights. They greatly influence revenue streams and growth of the businesses. They include the following;

**Consumer Confidence**

This is an economic indicator that measures overall consumer optimism about the state of the economy. Confident consumers tend to be more willing to spend money than consumers with low confidence, which means businesses are more likely to prosper when consumer confidence is high. Periods of high consumer confidence can present opportunities for new businesses to enter the market, while period of low confidence may force companies to cut costs to maintain profits.

**Employment**

When unemployment is low, consumer spending tends to be high because most people have income to spend, which is good for businesses and helps drive growth. When unemployment is high, consumer spending tends to be low because unemployed people don't have excess income to spend.

**Interest Rates**

An interest rate is the amount that a lender charges an individual or business to borrow money. Some small businesses rely on loans from banks or other financial institutions as a source of financing. Higher interest rates result in higher total business expenses for companies with debt. High interest rates can also reduce consumer spending, because high rates make it more expensive for consumers to take out loans to buy things like cars and homes.

**Inflation**

Inflation is the rate at which prices in the economy are increasing. Inflation causes increases in business expenses such as rent, utilities, and cost of materials used in production. Rising costs are likely to force businesses to raise prices on their own products and services to keep pace with inflation and maintain profits. Inflation reduces the purchasing power of consumers.

**Demand and Supply**

The demand and supply are two principal factors that affect the working of any business model. The demand is the willingness and ability of consumers to purchase a particular commodity, while supply is the ability of the business to provide for the demand of consumers. Eg, demand for new products on the market is usually high even when prices are high, so more is produced and later when demand falls prices can’t be easily reduced because of the production expenses thus affecting the business.

**BARRIERS TO ENTREPRENEURIAL DEVELOPMENT**

**Corrupt and unsupportive business environment**

Lack of supportive government regulations is a barrier to entrepreneurship. If the country has an unsupportive business environment because they have poorly defined contract and property laws, enforce regulations inconsistently, allow rampant corruption and bribing, it becomes hard to smooth the way for businesses to operate.

**Employee related difficulties**

Building an employee base for the enterprise is one of the more overlooked tasks. This task becomes a barrier when employees’ expectations increase, government regulations related to labour employment are hardened, and employee costs grow. Employee cost is more than pay. It includes healthcare, workers’ compensation, social security tax, and health and safety regulations.

**Tight market entry regulations**

Government rules on taxation, environmental regulations, lending requirements and licensing are all barriers to entrepreneurship. Most countries license market entry and the creation of new firms to protect incumbents in certain industries and professions. Entry procedures vary according to the kind of business and the registration requirements.

**Shortage of funds and resources**

Finding the money to start up an enterprise is a leading barrier to entrepreneurship. Without funds, any person cannot begin to organize, train, develop and sell products.

**Lack of Entrepreneurship Opportunities**

Venture creation requires existing market place opportunities with possibilities known to the entrepreneur and favorable conditions for the entrepreneurial “spirit” to succeed.

**Lack of Entrepreneurial Capacity**

Entrepreneurial capacity is the existence of people with entrepreneurship qualities, willingness and motivation to initiate new ventures. Opportunities go untried until someone comes along with an eye for possibility and a can-do attitude. It is like having an oil well field without knowledgeable people to mine the wells.

**Lack of Adequate Entrepreneurship Training**

Training and education can be a robust incubator for new ventures. This includes training in technical skills, managerial skills, entrepreneurship skills.

**Lack of Appropriate Technical and Practical Skills**

This is usually as a result of a theoretical approach to education. People tend to use the skills they have acquired to pursue entrepreneurial initiative. Lacking the appropriate skills and knowledge inhibits economic development.

**Lack of Market Experience**

Experience in a related business before start-up is positively correlated to the probability of success. Therefore, the capability to start a business is propelled by previous education and work experience. Rushing into a new market because it looks attractive and rewarding without having some experience and background in it can be fatal.

**Fear of Failure**

Entrepreneurship is a probability action which can lead to either success or failure. Entrepreneurs have to decide whether to take action so they don’t miss the boat, while knowing that careless action may cause them to sink the boat.

**Aversion to Risk**

A psychological barrier closely related to the fear of failure is aversion to risk. Entrepreneurs must take initiative, create structure with a social-economic mechanism and accept risk of failure. Entrepreneurs have to be risk takers while those who are risk averse will seek the security of an existing establishment. For example; through insuring the businesses