

## TOPIC 3 BUSINESS ENVIRONMENT AND CORPORATE SOCIAL RESPONSIBILITY

The environment of a business refers to those factors or constraints that affect the performance of a business. These constraints originate from within and outside the organization. Those that originate within the organization constitute the internal environments of business and those from outside constitute the external environment of a business.

### Internal Environment of business

These constraints that originate from within the organization and can easily be controlled by management include:

#### 1. The organizational charter

The organization's charter details the constitution, purpose and mission of the organization. This highlights scope of operation of an organization i.e. the type of products and services to be produced and the areas (markets) to be served.

#### 2. Policies, procedures and rules (standing plans)

Policies provide the framework within which decision making and action takes place. Procedures indicate the sequence of events or steps to be taken in handling a specific task.

Rules prescribe what one can and cannot do. Management actions and decisions are greatly influenced by (based on) these internal plans.

#### 3. Capital (finance)

Finance is essential to the growth, expansion and survival of any organizations. It is needed in accessing and maintaining the other factors of production. There are competing uses for the limited finance available e.g. marketers need finance for the promotional campaigns, human resource managers need finance to attract the most qualified labor etc.

#### 4. Human resources

If the human resource available has education, skills training and experience there will be less need for supervision and control and their contribution to performance will be positive and vice versa.

#### 5. Managerial skills (Talents available)

The more skilled and experienced the management staff, the better the direction they will give to the employees and the better will be the results.

### External Environment

This constitutes of factors that originate from outside the organization that are not easily controllable by management. There are five main factors in the external environment that impact on the performance of an organization.

1. Economic Environment
2. The market (competitive) environment
3. The technological environments
4. Political – legal environments
5. Social – culture environment

#### Economic Environment

The economic environment can be divided into two broad categories

- a) The general economic conditions
- b) The factor market

##### a). General economic condition.

They include

- i. The economic system in place. This can be socialist, capitalistic or mixed economy.

Capitalistic economies are more favorable to private enterprises than the other two.

- ii. National income; this determines the rate of growth for business investments.
- iii. Distribution of nation income. This will help to determine particular areas that are worth investing in.
- iv. Monetary policy. This determines the supply of money in the economy. It determines lending rates and the rates of inflation. This can be favourable or unfavourable to a business.
- v. Fiscal policy. This determines the governments expenditure and the tax structure. This can be favourable or unfavourable for a business.
- vi. Factor market. The availability of the factors of production i.e. land, labour, capital and entrepreneurship must be appraised in advance and necessary plans made to procure and sustain the same.

### **Competitive Environment**

The nature and degree of competition in an industry is dependent on 5 main forces.

- i. The threat of new entrants. The more profitable the business the more is the threat. Different barriers to entry will include: capital requirements, Access to distribution channels, Govt policies, etc.
- ii. Bargaining power of customers. This depends on how an organization shapes the prices, their quality of production and services offered etc. Powerful customer groups are concentrated, purchase in large volumes and thrive where sellers earn low profits.
- iii. Bargaining power of suppliers. Suppliers can raise the price of goods and services if.
  - a) Their product is unique or at least differentiated
  - b) If it sells products having no substitute.
- iv. Substitute products. The more the substitutes the more the competition.
- v. Positioning. This involves the use of tactics like price competition, new product introduction, promotional activities etc.

### **Technological Environment**

This determines the types of conversion process to be adopted. It includes inventions and techniques that affect the way of doing things i.e. the speed and quality of the production process and the distribution of products.

### **Political and legal Environment**

Political stability has an impact on the form and structure of government administration. Political parties have ideologies and can also determine the level of bureaucracy. Legal groups thus play a restraining role to business activities.

### **Social – cultural Environment**

This consists of attitude, beliefs, desires, expectations, education level and customs of the society at a given point in time. This can greatly influence business activity.

## CORPORATE SOCIAL RESPONSIBILITY

The term social responsibility is defined as those obligations that a firm has to the society in which it operates. A socially responsible company is a company that takes responsibility for the impact of their activities on the environment, customers, employees (internal customers), suppliers, communities and all other stakeholders in the public arena. This is also known as corporate citizenship, responsible business and corporate social performance. This is a process through which a business entity self-checks itself to measure their adherence to the law, ethical standards and other international procedures. As a result of this they would then endeavor to take responsibility over the effects of their business on all their stakeholders both internal and external.

Socially responsible companies have the following characteristics:

- ❖ Considers the effects of their actions on all stakeholders
- ❖ Invests in a number of philanthropic causes that benefits stakeholders
- ❖ Upholds ethical values and entrenches this in their organizational culture
- ❖ Values transparency in all their communications
- ❖ Values and respect its employees and demonstrates it
- ❖ Adheres to legal expectations in all their regulations
- ❖ Gives value to the shareholders
- ❖ Develops great leaders.
- ❖ Actively supports the community

## Benefits of an organization's involvement in social responsibility

Corporate social responsibility isn't just about doing the right thing. It offers direct business benefits. These benefits include;

- ❖ **Image:** Improve the company's reputation and enhances its image
- ❖ **Competition:** Helps a company continue to differentiate itself in the midst of a competitive business environment. Even with dozens of competitors, a real commitment to corporate social responsibility lets a company stand out
- ❖ **Customer enhancement:** Boosts customer loyalty
- ❖ **Savings:** By focusing on and reducing their environmental impacts they are also saving money on electricity bills, resource use and waste removal.
- ❖ **Staff retention:** Companies with rigorous corporate responsibility standards are also best positioned to attract and retain high quality staff, thereby reducing employee turnover rates and recruitment costs.
- ❖ **Business relationships:** Building a reputation as a responsible business sets a company apart. Many consumers prefer to buy from ethical businesses. Companies often favor suppliers who demonstrate responsible policies as this helps them to minimize the risk of damage to their own reputations.

- ❖ **Compliance:** Corporate social responsibility helps companies comply with regulatory requirements.
- ❖ **Community relationships:** Activities such as involvement with the local community are ideal opportunities to generate positive relationships and positive press coverage. Good relationships with authorities make doing business easier
- ❖ **National duty:** Contributes to a country's development initiatives
- ❖ **Business contributions:** It helps a company to give back to the community and enhances cohesion and positive relationships within communities where the business is carried out.

### **Demerits of an organization investing in social responsibility.**

**The disadvantages** of corporate social responsibility include:

- ❖ Managers are not trained nor do they possess the requisite skills to determine which socially desirable projects to support.
- ❖ It concentrates too much power in the hands of executives.
- ❖ It misdirects resources and violates sound business decision-making that should concentrate on making profits.
- ❖ Because of the importance that the business environment has given corporate social responsibility, some companies do nothing more than superficial window-dressing;
- ❖ Costs are excessive compared to the benefits to society and would tend to rise in prices to excessive levels.
- ❖ Must be communicated thereby the need for media relations
- ❖ Can be used by companies as goodwill from government in their business processes: Can be mere corporate jargon and politically correct box-ticking, rather than a commitment to concrete action. In such cases the benefits for the charity may be superficial at best
- ❖ The charity's reputation may risk being tarnished by association with particular corporate
- ❖ Some shareholders think that it is not their responsibility to run social responsibility activities as this is a government responsibility therefore making the government relax and abdicate their duty to citizens