# Business Environment

1. tutorial

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

**Ing. Šárka Zapletalová, Ph.D.**
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BUSINESS ENVIRONMENT

# Requirements on Students

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- Course evaluation:
  - Seminar paper – deadline 1. 5. 2023 (23:00) – 20% of points
  - Ongoing test in the week 2. 4. – 7. 4. 2023 – 20% of points
  - Exam, written form – 60% of points

# Introduction

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- Organizations don t operate in vacuum. Each organization operates within a specific environment.

- Environment of each organization is unique to it and no two organizations operate in exactly the same environment. Thus the business environment is situational. We are talking about environmental uniqueness.

- Business environment becomes more turbulent and unpredictable. It is important to understand the complexity of the business environment.

- Understanding of business environment is vital for people or practitioners who wish to gain a fuller understanding of both the context in which business decisions are taken and the major influences in those decisions.

## Definition of Business Environment



- Business environment is anything outside which may affect an organization s present or future activities (Kew and Stredwick 2005, 1).

- Business environment may be seen as presenting a range of threats and opportunities (Wetherly and Otter 2014, 21).

- Business environment comprises a wide range of influences which affect business activity in a variety of ways and which can impinge not only on the transformation process itself, but also on the process of resource acquisition and on the creation and consumption of output (Worthington and Britton 2009, 5).

- Environment of business organization consists of the actors and forces that affect organization s ability to build and maintain successful relationships with customers (Kotler and Armstrong 2010, 90)

## Definition of Business Environment



Wilson (1992) argues that the business environment may be viewed as:

- An objective fact, a clear, measurable and definable reality.
- A subjective fact, its particular characteristics being dependent on individuals interpretation and perceptions.
- Enacted, where the division between organization and environment is not clear and where the environment is created and defined by individuals.

# Significance of Study of Business Environment



- To frame policies,
- To ensure optimum utilization of resources,
- To analyze competitors strategies and formulate counter-measures,
- To keep business dynamic and innovative,
- To provide input for decision-making,
- To find out the strengths of business,
- To identify weaknesses of business,
- To find out the opportunities available to business,
- To identify threats posed to business,
- To know the internal environment,
- To understand market conditions,
- To understand international events and their impact on business.

## Interaction between Business and the Environment



**Responsiveness**

- Organizations must be able to respond effectively to factors in their environment that affect them.
- Successful organizations will be those that are able to deal effectively with these factors as well as or better than its competitors.

**Influence**

- Success of organization may also depend on the ability to influence the environment in which it operates to its own advantage.

**Choice**

- Organizations may be able to choose a favorable environment in which to operate by making decision as for the location of their entrepreneurial activities.

# Characteristics of the Business Environment

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- **Business environment as an „open system“** – the business organization is in constant interaction with its environment.

- **Interaction between the internal and external environments** – various external influences affecting organizations are also frequently interrelated.

- **The complexity of business environment** – external and internal influences are almost infinite in number and variety and no study could hope to consider them all.

- **Environmental volatility and change** – the business environment is further complicated by the tendency towards environmental change. This volatility may be particularly prevalent in some areas or in some markets or in some types of industry or organization.

# Typology of Business Environment



- The degree of complexity
  - Simple
  - Complex
- The degree of dynamics of changes in environment
  - Stable
  - Dynamic

| | | **Degree of dynamics** | |
|---|---|---|---|
| | | Stable | Dynamic |
| Degree of complexity | Simple | -Stability<br>-Small degree of uncertainty | -High dynamics of changes<br>-High degree of uncertainty |
| | Complex | -Stability<br>-Middle degree of uncertainty | -Turbulent environment<br>-High degree of uncertainty |

## Conceptualizing of the Business Environment



- **Spatial level**
  - Local level;
  - Regional level;
  - National level;
  - Supranational;
  - International/Global level.

- **Level of influence**
  - *External environment* – forces from outside
    - *General environment* (also known as environment, contextual environment, macro environment) – forces from the environment have a major impact at the level of the industry.
    - *Immediate environment* (also known as task environment, specific environment, near environment, operational environment, micro environment) – forces from the environment relevant to an individual organization within an industry.
  - *Internal environment* – forces from inside

# Components of the Business Environment

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- External business environment
  - Macro environment
  - Micro environment
- Internal business environment

| Components of business environment | | |
|---|---|---|
| | External | Internal |
| Macro environment | Micro environment | |
| -Economical<br>-Political<br>-Social<br>-Cultural<br>-Technological<br>-Natural<br>-Demographic<br>-Legal | -Costumers<br>-Competition<br>-Public<br>-Intermediaries<br>-suppliers | -Resources<br>-Management<br>-Strategy<br>-Business culture |

## Environmental Factors



Environmental factors are those events or situations that can have either a positive or a negative impact on organizations.

- **External environmental factors** are events that take place outside of the organization and are harder to predict and control. Some examples of external environmental factors are:
    - factors from macro environment;
    - factors from micro environment (market and industry).

- **Internal environmental factors** – internal environmental factors are events that occur within a organization. Some examples of internal environmental factors are:
    - strategy;
    - management;
    - business culture.

# Changes in Business Environment



- The business environment has been undergoing considerable change in recent years. This situation is not unique to modern times, but the pace of change seems to have been increasing.

- Of course, not all aspects of the environment are constantly changing.

- Changes in some aspects of the business environment may bring about changes in others, to express it in terms of a complex system.

- The elements of the complex system are responding and adapting to each other and are thus causing changes in the system as a whole.

# Internationalization of the World Economy



- Internationalization refers to the increasing importance of international trade, international relations, treaties, alliances etc.

- Process of internationalization is the process of connecting, deepening and expanding international economic relations from the perspective of individual national states.

- Internationalization is constantly proceeding and is influenced significantly by scientific and technological progress. The process of internationalization of the world economy is a process based on market relations.

# Globalization



- Globalization describes the process of integration on a worldwide scale of markets and production. For globalization national boundaries are not important economically.
- Globalization has major implications for companies, even some small companies operating locally may find themselves competing with a foreign multinational company or have to respond to changes in oil prices, for example.
- Globalization has allowed many companies and some countries to prosper, but in some respects it has also increased global inequalities. Globalization also allows companies to source supplies at lower costs, to learn new competencies, and to further differentiate products.
- Globalization is a process of closer integration and exchange between different countries and people worldwide, made possible by falling trade and investment barriers, advances in telecommunications, and reductions in transportation costs.
- These factors reduce the costs of doing business around the world, opening doors to a much larger market than any one home county.
- The world`s market economies are becoming more integrated and interdependent.
- Globalization has led to significant increases in living standards in many economies around the world.

# Globalization

**Stages of globalization**

- Globalization 1.0 (1900 – 1941)
  - Basically all the important business functions were located in the home country.
  - Only sales and distribution operations took place overseas (essentially exporting)
  - Firms procured raw materials from overseas.
  - Strategy formulation and implementation (knowledge flows), followed a one-way path – from domestic headquarters to international outputs.
  - The time period saw the blossoming of the idea of MNEs.
- Globalization 2.0 (1945 – 2000)
  - New focus on growing business – needs went unfulfilled and to reconstruct the damage from the war.
  - MNEs began to create smaller, self-contained copies of themselves, with all business functions intact, in a few key countries (Japan, Australia, Western Europe) – significant amounts of FDI
  - It was costly to duplicate business functions in overseas outposts, doing so allowed for greater local responsiveness to country-specific circumstances.
  - While the U.S. corporate headquarters set overarching strategic goals and allocated resources through the capital budgeting process, local mini MNE replicas had considerable leeway in day-to-day operations.

# Globalization



- Globalization 3.0 (21$^{st}$ century)
  - MNEs that had been the vanguard of globalization have since become global-collaboration networks.
  - Companies now freely locate business functions anywhere in the world based on an optimal mix of costs, capabilities, and PEST factors.
  - The MNE recognizes from a multinational company with self-contained operations in a few selected countries to a more seamless global enterprise with centers of expertise. Each of these centers of expertise is a hub within a global network for delivering products and services.
  - Creating a global network of local expertise is beneficial not only in service industries, but also in the industrial sector.
  - To increase the rate of low-cost innovation that can then be used to disrupt existing markets, GE organizes local growth teams in China, India, Kenya and many other countries. Many of these low-cost innovations, first developed to serve local needs, are later introduced in Western markets to become disruptive innovations.
  - GE uses the slogan “in country, for country” to describe the local growth teams` autonomy in deciding which products to develop, how to make them, and how to shape the business model.
  - Some new ventures organize as global-collaboration networks from the start (Logitech).

# Regionalism



- Regionalism – the nation state remains important whereas the process of globalization breaks down the barriers between nation states.

- Regionalism refers to the distinctive local character of a geographic area, or to the people s perception of and identification with such places.

- Regionalism is a spontaneous process from within the regions, where the constituent states now experience the need for cooperation in order to tackle new global challenges.

- Regionalism is thus one way of coping with global transformation, since most states lack the capacity and the means to manage such a task on the national level.

# Liberalization



- Liberalization – means to reduce unnecessary restrictions and controls on business units imposed by government.
- It means procedural simplification, relaxing trade and industry liberated from unnecessary bureaucratic hurdles.
- Liberalization was based on the assumption that market forces could guide the economy in a more effective manner than government control.
- This includes the removal or reduction of tariff obstacles, such as duties and surcharges, and non-tariff obstacles, such as licensing rules, quotas and other requirements.
- Trade liberalization promotes a free trade marketplace.

## Political Changes



- The last quarter of the twentieth century witnessed the gradual re-emergence of China as an economic power and the collapse of communism in the former Soviet bloc. These two events continue to have significant implications for international relations and the world economy in the twenty-first century.

- Numerous other developments have also been important in recent year. Among these are (Harrison...):
    - the USA s confirmation as the world s only „superpower";
    - the economic success of Asia s „tiger economies";
    - India s rapid economic growth;
    - the growing importance of Latin America s larger states, Brazil and Mexico;
    - the Arab uprising or „Arab Spring" in a succession of North African and Middle Eastern countries.

## Technological Changes



- Technology is one of the main driving forces behind globalization. As with other aspects of globalization, technological changes are not new.

- Although technological discoveries often draw on the work of many individuals over a long period of time, the pace of technological changes seem to have been accelerating since the late 1970s.

- This is particularly evident in the case of computer technology, including computerized control systems, computer-aided design and manufacturing, and information and communication technology.

- The use of computers has affected almost every type of business organization, from the recording and processing of information to the worldwide provision of products and information via the internet. Computer platform gives the company that controls the platform a potential competitive advantage over its rivals.

# Socio-Cultural Changes

- Globalization has far-reaching consequences for the way people live their lives.

- Not only does it bring opportunities for international travel and allow the local supermarket to stock goods from around the world, but it also exposes people to unfamiliar cultures and practices.

- Cultural changes can be regarded both positively and negatively.

- Culture is often influenced by religious beliefs. Most of the world s major civilizations are characterized by their religious traditions.

- Of particular interest is the revival of the influence of Islam, not only in predominantly Muslim countries in Asia, the Middle East, and North Africa, but also in the USA and Europe. Sometimes religious traditions represent important differences of outlook and beliefs, including their perspectives on political issues and business practices.

## Changes in National Government Policy



- The interconnectedness that comes with globalization has brought a degree of consensus in national policy-making among the world s leading economies, particularly on macroeconomic policy.

- This has come about because of three key developments:
    - The end of state economic planning in the former Soviet bloc and China – apparent „triumph“ of the market economies over the centrally planned economies;
    - A gradual synthesis of ideas in modern macroeconomics;
    - The growing influence of international economic institutions such as the IMF, World Bank and WTO.

- The macroeconomic policy consensus requires national governments to set a budget that balances tax revenue and current expenditure over the economic cycle, whilst pursuing a policy of monetary stability by raising or lowering rates to maintain low inflation.

# International Financial Crisis



- In 2008, the difficulties that were being experienced by one or two smaller financial institutions began to spread rapidly to the financial sector as a whole.

- The financial crisis put pressure on government finances in the countries worst affected and led to falling exchange rates and share prices, and to a shortage of credit finance for companies and consumers.

- Consumer spending was soon affected. Companies were struggling with falling sales, and rising unemployment became inevitable.

- By late 2008 the financial crisis had not only spread across much of the world but had also caused a general economic downturn.

- Changing market conditions demand that many companies devise new strategies as they search for a competitive place in home and international markets and take advantage of emergent market opportunities.

## Social Responsibility

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- Just as free market policies had apparently triumphed as the world was approaching the new millennium, pressure on governments and companies to moderate the harsher aspects of free market was increasing. Even neutral observers are now increasingly emphasizing the need for those engaged in any form of economic activity to be socially responsible.

- There is a growing expectation that a company should at least be aware of its impact on society and the environment.

- Examples of this trend include the following:
    - The fair-trade and trade justice movements;
    - Concerns about the impact of production and trade on the natural environment;
    - Pressure on companies to take full account of their corporate social responsibilities.

# Other Changes in Business Environment



- **Hyperglobalization** – the world market is seen as a borderless global marketplace consisting of powerless nation states and powerful multinational corporations.

- **Transformationalism** – sees the process of globalization as bringing about changes in both the power of countries and companies and in national characteristics and culture.

- **Privatization** – privatization means allowing the private sector to set up more and more of such industries as were previously reserved for public sector. Under it, existing companies of the public sector are either wholly or partially sold to private sector. Privatization of industries means opening the gates of public sector to private sector.

# Responses to the Changes in Business Environment



- **Defenders** – business organizations operate in generally placid environments. They do not actively search for new opportunities, but concentrate on maximizing the efficiency of their existing operations.

- **Prospectors** – business organizations are attracted to turbulent environments. They are constantly experimenting with novel responses to the environment. They thrive on change and uncertainty, but pay little attention to efficiency.

- **Analyzers** – business organizations are successful poachers. They watch competitors for new ideas and adopt the successful ones.

- **Reactors** – business organizations make adjustments to their strategy when forced to do so by environmental pressures. They are prepared to change, but they are even more market followers than the analyzers.

# External Business Environment

Macroenvironment

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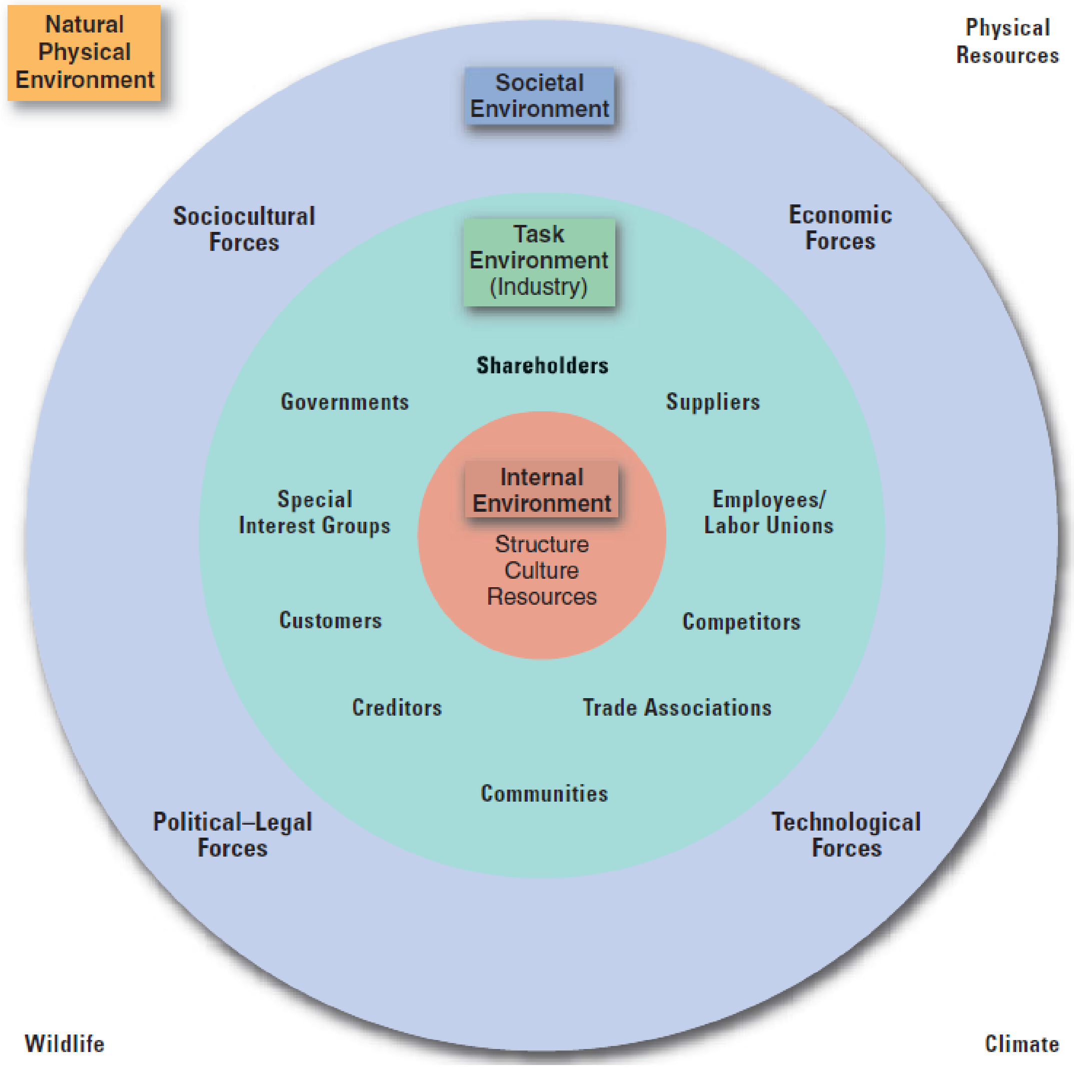
# External Environment



## External Environment

- An **external environment** is composed of all the outside factors or influences that impact the operation of business.

- The business must act or react to keep up its flow of operations. All outside factors that may affect an organization make up the external environment.

The external environment can be broken down into two types:

- **Macroenvironment** – this environment has a secondary and more distant effect upon the organization. Indirectly interactive forces may impact one organization more than another simply because of the nature of a particular business.
- **Task environment** (microenvironment, market environment) – this environment has an immediate and firsthand impact upon the organization. Directly interactive forces include owners, customers, suppliers, competitors, employees, employee unions, and public. Management has a responsibility to each of these groups.

## External Environment: Macroenvironment

- **Macroenvironment** consists of large-scale fundamental forces that shape opportunities and pose threats to the organization. These forces are largely uncontrollable but must be monitored for purposes of both short- and long-term planning.

- Macroenvironment concerns events and systems that operate on a large scale and form a backdrop to day-to-day business decisions. The macro environment also contains issues and events which are beyond the capacity of individual organizations to influence or control. The macro environment is affecting all organizations in the economy/industry and over which no individual organization has much (if any) influence or control.

- These forces affect companies and are as follows:
  - economic forces;
  - technological forces;
  - political forces;
  - legal forces;
  - social forces
  - natural forces;
  - demographic forces;
  - cultural forces.

## Macroenvironment

**Economic Environment**

- The nature of the economic environment is a complex mix of economic, social and political factors.

- Change and uncertainty are at the heart of the economic environment and this has been seen in the dynamic changes that have occurred in both the domestic and global economic environments over time.

- The economic environment is the source of these resources which can be grouped together into four categories:
    - Labor – proportion of the population engaged in production;
    - Land – refers to all natural resources;
    - Capital – resources in the form of machinery, tools and factories;
    - Enterprise – entrepreneur is the key person without whom production would not take place.

## Macroenvironment

### **Economic Environment: Framework of economic environment**

- ***Economic system***
    - Economic structure of the country;
    - Nature of economic planning in the country.
- ***Economic policy***
    - Industrial policy;
    - Fiscal policy;
    - Monetary policy;
    - FDI norms.
- ***Economic indices***
    - National income, distribution of income, per capita income;
    - Rate of growth of GNP;
    - Value of imports and exports.
- ***State of economic infrastructure***
- ***Strength of money and capital markets***

## Economic Environment: Economic System

**Economic system** is a social organism through which people earn their living. A modern economic system is complex.

- Kinds of economic systems:
    - ***Free enterprise economy*** – this economic system works on the principle of the least interference by the government or any external force. The primary role of the government is to ensure free working of the economy by removing obstacles to free competition.
    - ***Government controlled economy*** – economies are controlled, regulated and managed by the government agencies.
    - ***Mixed economy*** – is one in which there exist both government and private economic systems. A mixed economy has both public sector (the government economy) and private sector (the private economy).

## Macroenvironment

**Economic Environment: Business and economic system (economic problems)**

- ***The allocation problem***
  - If there are insufficient resources to satisfy every need or want then decisions have to be made as to what to produce.
  - When any decision is being made about resource use, the full range of options has to be considered.

- ***The production problem***
  - How does the economy organize the production of the chosen commodity?
  - We need to carefully examine the economic environment that would lead to such productive efficiency.

- ***The distribution problem***
  - We ought to have a clear set of criteria for judging distributive efficiency or what can be variously described as equity, fairness or justice.

## Macroenvironment

**Demographic Environment**

- The demographic environment includes factors like:
    - Size, density and location of human populations;
    - Distribution of a particular market in terms of age, gender, race, occupation;
    - Other statistical information.

- These factors have a considerable impact on the business as they determine the size of the market for different types of products and services and also influence the cost of serving that market.

Macroenvironment

## Demographic Environment: Demographic trends

- In the environment we will focus on the following dimensions of the population and demographic change:
  - population size;
  - population structure.

- Population change (growth or decline) is determined by the combined effects of:
  - natural changes resulting from birth and death rates;
  - net migration.

- Ageing population means that there is a growing number and proportion of people at the top end of the age structure, particularly those who are above retirement age.

## Macroenvironment

**Political Environment**

- Political environment describes the political system prevailing in the country and also deals with the regulations and legislations, government programs and other similar problems.

- Political environment determines the rules under which we live together and creates a „good society“. Political environment refers to the influence exerted by political institutions in shaping, directing, developing and controlling business activities.

- Politics is an important element of the external business environment, but it also has an internal dimension. Politics and governance operate on a number of levels or spatial scales.

- The relationship between business and politics is a key aspect of the complex business environment, including social, technological and other dimensions.

## Political Environment: Types of political systems

- We can classify political systems into broad types, which allows us to see the most important differences and group countries with similar political systems together.

- Types of political systems:
    - ***Liberal democracy*** – the form of government that combines democratic procedures with forms of individual freedom and equity.

    - ***Non-democratic systems***
        - Communist regimes;
        - Dictatorships.

Macroenvironment

## Political Environment: Government-Business Relationships

- Politics and business are not separate but interdependent. In some ways business depends on government and government in some ways depends on business.

- The basic task of government in all societies is to determine the rules within which people live, including rules governing business behavior.

- Law or regulation and taxation are key elements of the government and business relationship.

- Business has an important stake in these and other areas of government activity.

- Government is the principal customer for some organizations and industries.

## Macroenvironment

**Political Environment: Role of Government**

- *The role of government in relations to business can be examined by identifying three models*
  - minimal state;
  - developmental state;
  - social-democratic state.

- *Government:*
  - determines the legal framework within which business operates;
  - influences or determines the scope of market relationships and the balance or mix between the market and other sectors;
  - relates to private sector business as a major customer;
  - relates to private sector business as a provider of services and resources;
  - relates to private sector business as a tax collector;
  - manages the macroeconomic environment;
  - represents business interests overseas, in relation to foreign governments and international organizations.

Macroenvironment

## Legal Environment

- Legal environment is a dynamic part of the business environment. The law changes on a daily basis and adds to the complexity of the business environment.

- Legal environment determines the parameters within which businesses can operate.

- The law is shaped by a number of factors such as social, economic and political. The law cannot be seen in isolation and in particular it is closely linked to the political environment.

- Legal systems operate within geographical boundaries or jurisdictions. The law in different nation states will therefore vary.

## Legal Environment: Legislative Systems

- There are four major bases for legislative systems:
  - ***Common law*** – found in the UK, the USA, Canada and other countries under the English influence. Common law is employed by the greatest number of people in the world;
  - ***Islamic law*** – derived from the Koran and applied in Islamic States;
  - ***Commercial legal system*** – found in socialist economies and states like China and the former Soviet Union;
  - ***Civil*** (also known as Continental European) or ***Code law*** – found in Germany, France and other European countries, Japan and non-Islamic and non-socialist countries. Civil law is the most widespread by landmass.

## Legal Environment: Law and Business Activities

- The law plays an important role in creating markets and enabling them to operate.

- The law determines the different structures a business can adopt.

- The law does not exist in a vacuum and therefore is strongly influenced by the prevailing values within society. These values reflect different competing interests.

- In modern society the law affects all aspects of business activity:
    - Relations with employees (employee protection);
    - Relations with consumers (consumer protection);
    - Competitive behaviors and relationships (competition policy);
    - Impacts on third parties and the environment (planning law).

## Cultural Environment

- Culture refers to the specific learned norms of a society based on attitudes, values, beliefs, and frameworks for processing information and tasks.

- Cultural environment deals with values, norms and accepted behavioral patterns.

- An important aspect of the cultural environment is related to the values that consumers hold. These values revolve around a number of fundamental concerns like time, quality, health, environment, home, personal finance and diversity. Any shift in the values of a society directly or indirectly influences business.

Macroenvironment

**Cultural Environment: Cultural Environment and Business**

- People s attitude towards business and work is strongly influenced by the culture in which they are born and brought up.

- The extent of collectivism and individualism in the thinking and behavior of people is strongly influenced by their culture. This further affects the behavior of individuals as consumers.

- Concern for environmental pollution, attitude towards consumerism, use of mass media and the role of business in society are strongly influenced by the culture of a society.

## Macroenvironment

**Social Environment**

- Social environment describes the people, their attitudes, social behavior and impact of education, knowledge explosion and public opinion.
- A person s interaction with the society he or she lives in shapes, refines and even alters his or her beliefs, values and norms which in turn define his or her tastes and preferences and even prompts him or her to absorb a world view of things.
- The social environment greatly influences the nature of consumer demand, the consumer decision-making etc. The environment strongly influences the behavior of the individuals of a group, which further has an impact on the practices adopted by business organizations.

## Macroenvironment

### Social Environment: Impact of Social Environment on Business

- Social environment creates or influences the attitude, personality, thought process and behavior of the people who are part of it.

- It determines of influences consumption patterns and demand for goods and services in a society.

- It includes the awareness about the rights and the work ethics of the members of society.

- Parameters of social division too have an impact on the attitudes and thinking of people as consumers of goods and services.

## Macroenvironment

**Technological Environment**

- Technological environment can be seen as encompassing both the creation of new knowledge and its application to improve business efficiency and, in so doing, improve the standards of living and the quality of life.

- Technological environment is conducive to the development and implementation of technological improvement. Technology alters the business environment by providing new opportunities.

- Globalization is rapidly combining with the new technologies to transform the external business environment. Technological change is rapid and no business can afford to stand still in the face of this change.

- There is a range of political, economic and social conditions that need to be present in the external environment if technological change is to be supported.

## Macroenvironment

**Technological Environment: Technology**

- Technology is application of knowledge to production and this can happen in a variety of ways.

- ***Invention*** – completely new ideas about products or ways of producing things arise.

- ***Innovation*** – improves or enhances original inventions (product innovation) or develops production processes (process innovation).

- How this technology is used or applied fundamentally depends on the wider political, economic, and socio-cultural environment and the way in which people within business seek to exploit its commercial potential.

## Technological Environment: The Impact of Technology on Business

- Technological change can improve the competitiveness of the organization and add value to the organization.

- Technology cannot be ignored by business and it can either boost an organization s individual position or improve the profitability of the industry in which it operates.

- It is important for an organization to adopt a technology strategy that enables it to respond to external changes as well as to develop a consistent approach in relation to its goals.

- Finally, the impact of technology in a business can potentially reduce costs, improve quality and productivity, and enable new products to be developed and differentiated.

Macroenvironment

## Natural Environment

- The natural environment is a term which covers a series of fairly obvious categories such as climate and weather conditions, natural resources and topography. These may affect an organization on a purely local level or there may be global implications.

- Business in its activities has a major impact on the natural environment, but this impact can strike back at business.

- The current global environmental problems are:
  - Global warming;
  - Pollution;
  - Resource depletion.

## Concept of Sustainable Development

- The idea and strategy of sustainable development is put forward as a way of ensuring that we collectively live within the constrains of our resources, and the capacity of the environment to absorb the effects of our presence on the planet.

- Sustainable development involves cooperative action at global, national and local level.

- Governments at all levels may set frameworks of laws and regulations involving a variety tools:
    - Market based policy;
    - Non-market based policy.

# External Business Environment

Task Environment

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## Task Environment

- Task environment (microenvironment, market environment) – this environment has an immediate and firsthand impact upon the organization. Directly interactive forces include owners, customers, suppliers, competitors, employees, employee unions, and public. Management has a responsibility to each of these groups.

- The task environment includes those elements or groups that directly affect a corporation and, in turn, are affected by it.

- These are governments, local communities, suppliers, competitors, customers, creditors, employees/labor unions, special-interest groups, and trade associations.

- A corporation’s task environment is typically the environment within which the firm operates.
    - industry;
    - market.

## Task Environment

- Organizations sit back and wait for the environment to change, without attempting to predict its behavior, and then react to changes as they happen – **reactive style** (constantly fire-fighting immediate problems).

- Organizations they can identify and foresee changes in the business environment, and plan their responses before these changes happen – **proactive style** (planning for future).

## Task Environment

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- Organizations they can identify and foresee changes in the business environment, and plan their responses before these changes happen – **proactive style** (planning for future).

## Industry

- An **industry** is a group of firms that produces a similar product or service, such as soft drinks or financial services. An examination of the important stakeholder groups, such as suppliers and customers, in a particular corporation’s task environment is a part of industry analysis.

- An industry exists to serve a market. An industry is a group of organizations that are similar in terms of their primary business activities.

- Dozens of industry classifications exist, and these are typically grouped into larger categories known as sectors.

- Organizations operating in the same industry can also be compared to each other to evaluate the relative attractiveness of a organization within that industry.

## Industry

**Typology of industries**

- ***Industries according to dependence on the economic cy***cle:
    - Cyclical industry;
    - Anti-cyclical industry;
    - Neutral industry.

- ***Industries according to the intensity of production factors***:
    - Labor intensive;
    - Capitally intensive;
    - Investment intensive.

- ***Industries according to the number of available competitive advantages***:
    - Volumetric;
    - At an impasse;
    - Fragmented;
    - Specialized.

## Industry and economic sectors

Dozens of industry classifications exist, and these are typically grouped into larger categories known as sectors. A sector is a group of closely related industries.

- Economic sectors:
    - ***Primary sector*** – agriculture, mining and other natural resource industries;
    - ***Secondary sector*** – covering manufacturing, engineering and construction;
    - ***Tertiary sector*** – service industries;
    - ***Quarternary sector*** – intellectual activities involving education and research;
    - ***Quinary sector*** – high level decision makers in government and industry.

## Industry classification

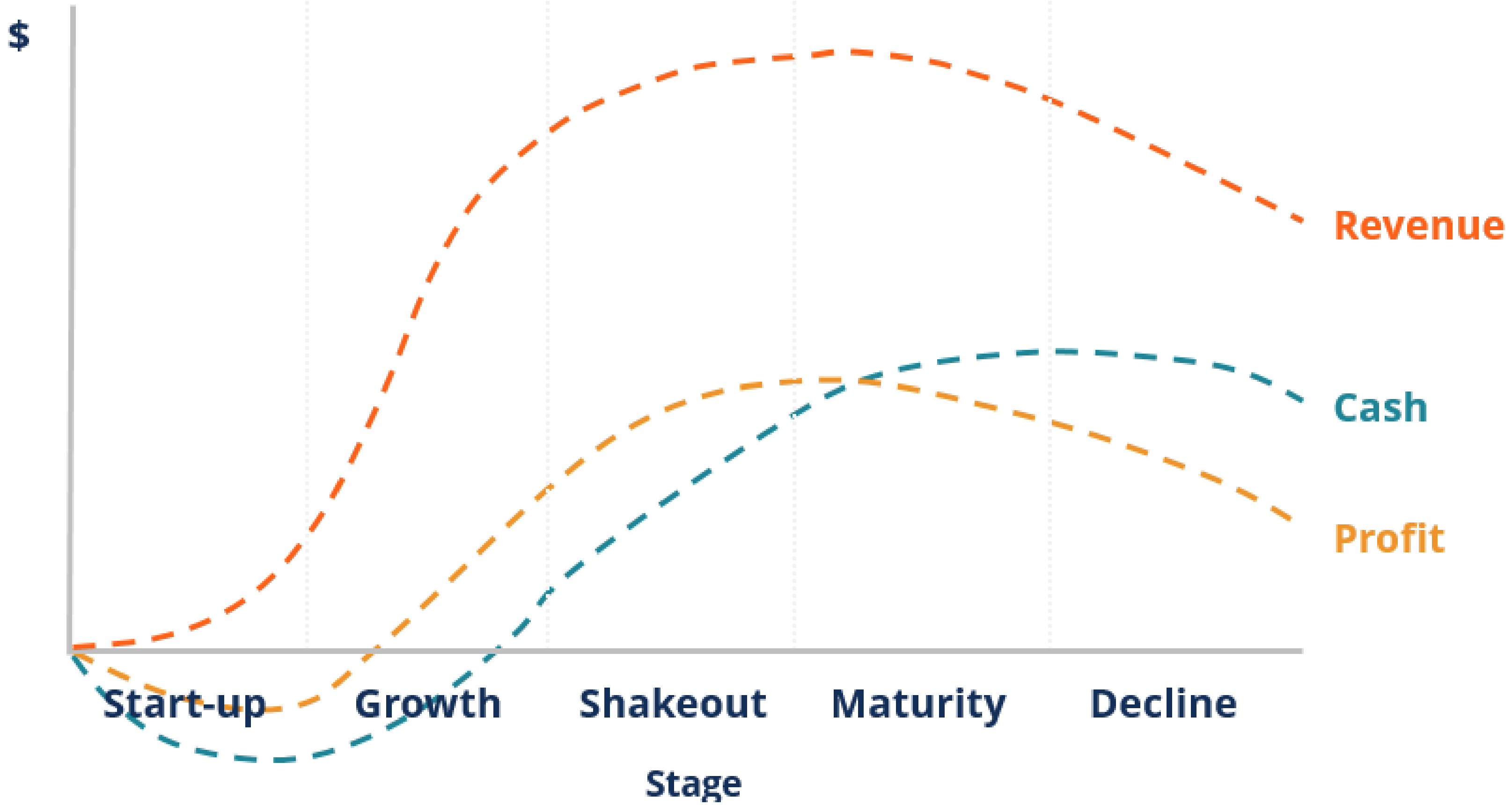
- Statistical classification of economic activities in the European Community (NACE) is a four-digit classification providing the framework for collecting and presenting a large range of statistical data according to economic activity in the fields of economic statistics.

- Economic activities:
    - A Agriculture, forestry and fishing;
    - B Mining and quarrying;
    - C Manufacturing;
    - D Electricity, gas, steam and air conditioning supply;
    - E Water supply, sewerage, waste management and remediation activities;
    - F Construction;
    - G Wholesale and retail trade, repair of motor vehicles and motorcycles;
    - H Transportation and storage;

## Industry classification

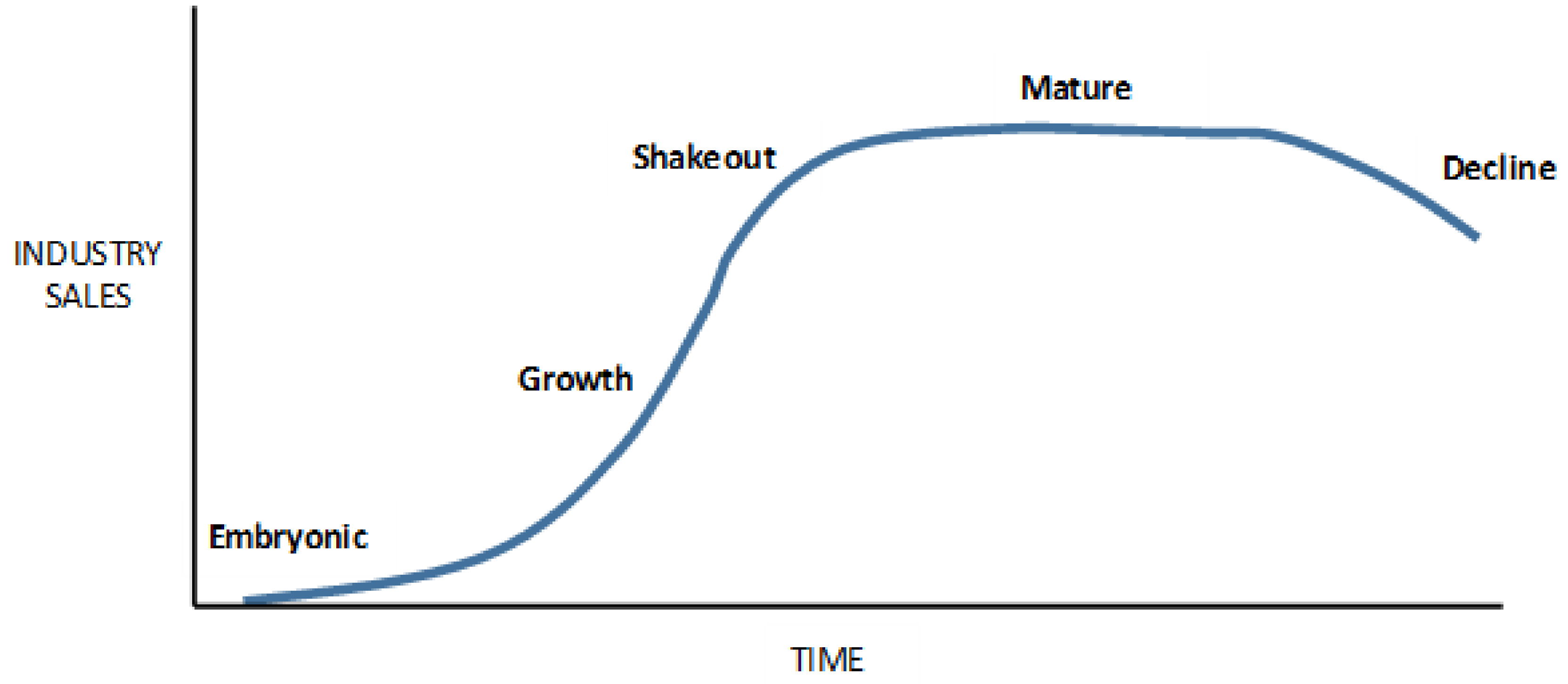
- I Accommodation and food service activities;
- J Information and communication;
- K Financial and insurance activities;
- L Real estate activities;
- M Professional, scientific and technical activities;
- N Administrative and support service activities;
- O Public administration and defense, compulsory social security;
- P Education;
- Q Human health and social work activities;
- R Arts, entertainment and recreation;
- S Other service activities;
- T Activities of households as employers, undifferentiated goods; and services producing activities of households for own use;
- U Activities of extra territorial organizations and bodies.

# Industry life cycle: Revenue, cash and profit



Industry

# Industry life cycle



Industry

## Industry life cycle: Embryonic industries

- **Embryonic industries** are just beginning to develop.
- Growth at this stage is slow because of the factors such as buyers unfamiliarity with the industry s product, high prices due to the inability of organizations to reap any significant economies of scale, and poorly developed distribution channels.
- Barriers to industry enter can be quite high. Established organizations will be protected from potential competitors.
- Rivalry can be intense. Rivalry in embryonic industries is based on educating customers, opening up distribution channels and perfecting the design of the product.
- An embryonic industry may also be the creation of one organization s innovative efforts.
- The company has a major opportunity to capitalize on the lack of rivalry and build a strong position on the market.

## Industry life cycle: Growth industries

- An industry grows when customers become familiar with the product.
- Prices fall because experience and economies of scale have been attained and distribution channels develop.
- In a growth industry, first-time demand is expanding rapidly as many new customers enter the market.
- Few companies have yet achieved significant economies of scale or built brand loyalty, other entry barriers tend to be relatively low as well, particularly early in the growth stage.
- Threat from potential competitors is highest.
- High growth usually means that new entrants can be absorbed into an industry without a marked increase in the intensity of rivalry. Rivalry tends to be relatively low.

**Industry life cycle: Industry shakeout**

- Explosive growth cannot be maintained indefinitely. Sooner or later, the rate of growth slows, and the industry enters the shakeout stage.
- In the shakeout stage, demand approaches saturation levels.
- Most of the demand is limited to replacement because there are few potential first-time buyers left.
- As an industry enters the shakeout stage, rivalry between organizations becomes intense.
- Typically, companies that have become accustomed to rapid growth continue to add capacity at rates consistent with past growth.
- Organizations often cut prices. The result can be a price war, which drives many of the most inefficient organizations into bankruptcy, which is enough to deter any new entry.

## Industry life cycle: Mature industries

- The market in mature stage is totally saturated. Demand is limited to replacement demand and growth is low or zero.
- As an industry enters maturity, barriers to entry increase, and the threat of entry from potential competitors decreases.
- Industry mature surviving organizations are those that have brand loyalty and efficient low-cost operations.
- Most industries in the maturity stage have consolidated and become oligopolies.
- In mature industries, organizations tend to recognize their interdependence and try to avoid price wars.

## Industry life cycle: Declining industries

- Most industries enter a decline stage. Within a declining industry, the degree of rivalry among established organizations usually increases.
- Depending on the speed of the decline and the height of exit barriers, competitive pressures can become as fierce as in the shakeout stage.
- The main problem in a declining industry is that falling demand leads to the emergence of excess capacity.
- The greater the exit barriers, the harder it is for organizations to reduce capacity and the greater is the threat of severe price competition.

## Market

- **Market** consists of individuals and organizations which are interested and willing to buy a particular product to obtain benefits that will satisfy a specific need or want and who have the resources to engage in such a transaction.

- In the market we can to find these ***market subjects***: buyers, organizational buyers, competition, publics.

- A market is made up of individual consumers and costumers. They can be categorized by their buying habits. **Consumers** – buyers – are the individuals who use the products purchased for a household. **Customers** – organizational buyers – are companies that buy products and then resell them with or without reprocessing to other organizations or ultimate consumers.

## Consumer Markets

- Consumer market consists of individuals and households that buy goods and services for personal consumption. Consumer is an end-user of goods and services. The world consumer market consists of more than 6 billion people.

- Consumer market is characterized by aggressive marketing campaigns, for consumers tend to be disloyal to brands and can easily switch from one to another.

- Within this category several sub-types exist:
    - Fast-moving Consumer Goods (FMCGs) – generally high volume, low unit value goods that have a fast repurchase cycle;
    - Consumer durables – these goods have low volume but high unit value.

## Business Markets

- Business buyers are divided into three different markets – industrial, reseller and government markets:

- ***Industrial markets*** – industrial organizations in some way reprocess a product they buy before selling it again to the next buyer.

- ***Reseller (business)*** **markets** – wholesalers and retailers who buy physical products and resell them again without any reprocessing are *resellers*.

- ***Government markets*** – government units are the state and local agencies that buy products for the constituents they serve.

## Market Structures

Economists classify market structures by the number of organizations within the market:

- ***Perfect competition*** – this is a market when no producer has an advantage over any other producers. There are many producers and also a large number of buyers.

- ***Monopolistic competition*** – many organizations will compete in a market, but each will sell a slightly different product.

- ***Monopoly*** – a organization has a monopoly if it is the only organization supplying the market.

- ***Oligopoly*** – it exists when a few large producers control a market between them. The number of organizations may vary between two and about a dozen, and the products can be homogenous or diversified.

## Market Subjects

In the market we can to find these ***market subjects***:

- **Buyers** – ultimate consumers – are the individuals who use the products purchased for a household.
- **Organizational buyers** – customers – are companies that buy products and then resell them with or without reprocessing to other organizations or ultimate consumers.
- **Intermediaries** help the organization to promote, sell and distribute its goods to final buyers. Types of intermediaries: middlemen, marketing agencies, financial intermediaries, physical intermediaries
- **Competitors** are defined as direct and indirect ways customers can satisfy needs apart from making and exchange for a particular offering.

## Market Subjects

- **Publics** are individuals, groups and organizations that take an interest in the organization. Publics can help or harm an organization and their needs and interests must be served of accommodated. An organization is really a coalition of several groups, each giving different things to and seeking different things from the organization. Publics can be classified by their functional relation to the organization: media public, local public. An organization can be viewed as a resource-conversion machine in which certain input publics (donors, suppliers) supply resources that are converted by internal publics (staff, board of directors) into useful goods and services that are carried by intermediary publics (advertising agencies) to consuming publics (media, consumers). Not all publics are equally active or important to an organization.

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## Market Measurement

- Market is usually measured by dollar (euro) sales and/or unit sales for a defined product-market and specified time period.

- For measurement of market we can use these three measures:
  - **Market potential** is an estimate of the maximum possible sales of a product, a group of products or a service for an entire industry during a specified time period.
  - **Market size** (market capacity) is total sales of product, a group of product or a service of the defined industry during a specified time period.
  - **Market share** is defined as the sales of product, a group of product or a service of the particular company in the defined industry during a specified time period.

## Market Segments

- ***Market segments*** are distinct groups of customers within a market that can be differentiated from each other on the basis of their distinct attributes and specific demands.

- Each segment contains people who are relatively homogenous in their needs, wants and the product benefits they seek. Also, each segment seeks a different set of benefits from the same product category.

- The aim of segmentation is to identify groups within a heterogeneous market who share distinctive needs, preferences and behaviors.

## Market Segmentation

- Segmentation aims to identify broad groups for whom specific offers can be developed.

- Steps in market segmentation:
    - Marketing research;
    - Identifying bases for segmenting the market;
    - Developing profiles of resulting segments.

- Criteria for market segmentation:
    - Mutual exclusivity;
    - Exhaustiveness;
    - Measurability;
    - Substantiality;
    - Actionability;
    - Quantity decisions;
    - Quality decisions;
    - Timing decisions.

# Internal Business Environment

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

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BUSINESS ENVIRONMENT

## Resources and Capabilities

- Resources are an organization's assets and are thus the basic building blocks of the organization.

- They include **tangible assets**, such as its *plant, equipment, finances, and location, human assets, in terms of the number of employees, their skills, and motivation*, and **intangible assets**, such as its *technology (patents and copyrights), culture, and reputation*.

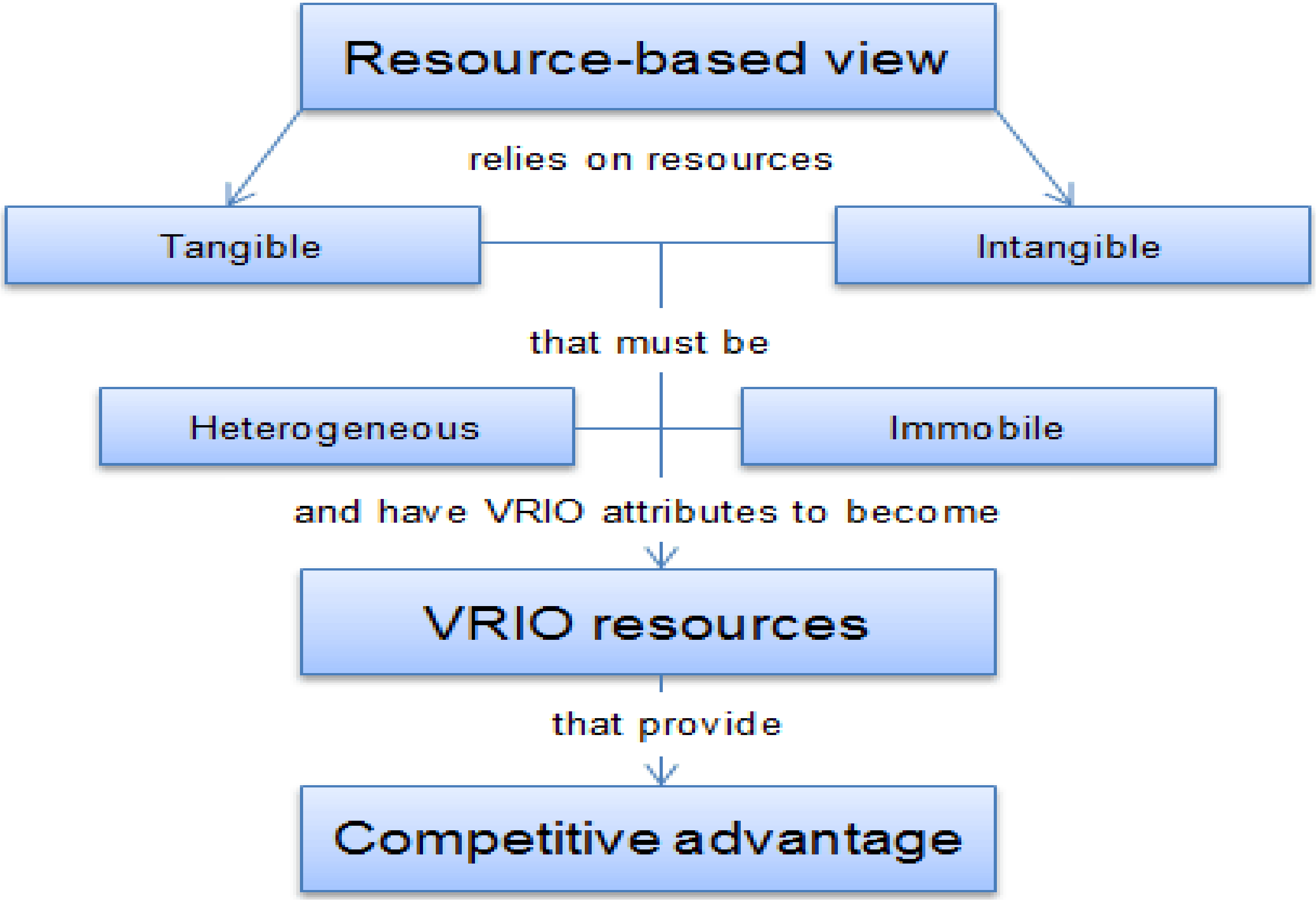
- **Capabilities** refer to a corporation's ability to exploit its resources.

- A capability is functionally based and is resident in a particular function. Thus, there are marketing capabilities, manufacturing capabilities, and human resource management capabilities. When these capabilities are constantly being changed and reconfigured to make them more adaptive to an uncertain environment, they are called **dynamic capabilities.**

## Resources and Capabilities

- Four factors help a company to build and sustain **competitive advantage** - ***superior efficiency, quality, innovation, and customer responsiveness***.
- The durability of a company's competitive advantage depends upon the **height of barriers to imitation**, **the capability of competitors to imitate its innovation**, and the **general level of dynamism in the industry environment**.
- The **distinctive competencies** of an organization arise from its *resources* (its financial, physical, human, technological, and organizational assets) and *capabilities* (its skills at coordinating resources and putting them to productive use).
- If a company's managers are to perform a good internal analysis, they need to be able to analyze the financial performance of their company, identifying how the strategies of the company relate to its profitability, as measured by the return on invested capital.

# Resources


Resource-based view
relies on resources
Tangible
Intangible
that must be
Heterogeneous
Immobile
and have VRIO attributes to become
VRIO resources
that provide
Competitive advantage

## Core Competencies and Competitive Advantage

- **Core competencies** are those assets that are valuable for improving business, are difficult for competitors to imitate and can be extended as a value-creating capability for use in other product or geographic markets.

- Core competencies are usually classified into one of three basic groups:
  - Superior technological know-how;
  - Reliable innovative processes;
  - Close relationships with external parties.

- **Competitive advantage** is an advantage that a organization has over its competitors, allowing it to generate greater sales or margins and/or retain more customers than its competition.

- Competitive advantage is a sustainable advantage. The advantage is sustainable for long term.

# Core Competencies and Competitive Advantage

## Examples of core competencies

| Company | Core competencies | Application examples |
|---|---|---|
| Amazon.com | Superior IT capabilities | Online retailing: largest selection of items online |
| Apple | Superior marketing and retailing experience<br>Superior industrial design in integration of hardware and software | Creation of innovative and category-defining mobile devices and software services |
| Coca-Cola | Superior marketing and distribution | Leveraging one of the world s most recognized brands<br>Gloal availability of products |
| Honda | Superior engineering of small but powerful and highly reliable internal combustion enegines | Motorcycles, cars, sporting boats, snowmobiles, small aircraft |

# Competitive Advantage

- When a organization has permanent competitive advantage, its resources and capabilities are durable, hard to identify and hard to copy.

- A organization chooses to pursue one of two types of competitive advantage, either via lower costs than its competition or by differentiating itself along dimensions valued by customers to command a higher price.
- The sources of competitive advantage differ widely among industries and even within industry segments.

- Globalization competitors do not negate the role of the home nation in a competitive advantage but do change its character.

- The innovations that lead to the competitive advantage involve an accumulation of small steps and protective efforts as much as dramatic breakthroughs.

- Organization gains advantage initially through altering the basis of competition.

- Organizations sustain competitive advantage through improving fast enough to stay ahead.

## Competitive Advantage

**Types of competitive advantages**

- ***Comparative advantage*** is a organization  s ability to produce goods or services at a lower cost than its competitors, which gives the firm the ability to sell its goods or services at a lower price than its competition or to generate a larger margin on sales. Organization uses its resources to specialize in the production of those products that are most productive and profitable.

- ***Differential advantage*** is created when a organization s products or services differ from its competitors and are seen as better than a competitor's products by customers.

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## Internal Environmental Factors

- Internal environmental factors are events that occur within an organization.

- We distinguish between two groups of internal environmental factors:

    - ***Strategic factors***
        - strategy;
        - organizational structure;
        - competitiveness.

    - ***Organizational factors***
        - managerial team;
        - organizational resources;
        - organizational culture.

# Internal Environmental Factors

## Strategy

- **Strategy** is a process that can allow an organization to concentrate its resources on the optimal opportunities with the objectives of increasing sales and achieving a sustainable competitive advantage.

- Strategy is a specific group of decisions that managers take to maximize their companies  performance. There are different levels of such decisions:
    - ***Mission*** – a guideline stating what the organization seeks to do and become/achieve over the long term. A mission is set by senior managers or organization s founder.
    - ***Strategic intent*** – consists of the goals that stretch the organization s performance credibly. Employees believe that the goals can be reached and will work toward their achievement.
    - ***Objectives*** – are specific performance targets. Mission and strategic intent in turn set objectives.

## Internal Environmental Factors

**Strategy: Levels of strategies**

- ***Corporate strategy*** applies at the level of a organization engaged in different business segments. It essentially defines the portfolio of businesses in which the organization wants to be and the resource allocation patterns among those businesses. At this level businesses need to ask the question: „Which business should we be in?“

- ***Business strategy*** is then used as an umbrella term to denote the broad range of strategic options open to the organization, including both organizational and functional management strategy, product/market strategies, and diversification strategies. At this level the businesses need to ask the question: „How do we compete?“

- ***Functional strategy*** is an area of operational management based on a specific department or discipline within an organization, such as human resources, finance or marketing.

## Internal Environmental Factors

**Organizational structure**

- Organizational structure refers to the way that an organization arranges people and jobs so that its work can be performed and its goals can be met.

- Organizational structure determines how the roles, power and responsibilities are assigned, controlled and coordinated, and how information flows between the different levels of management.

- In centralized structure, the top layer of management has most of the decision-making power and has tight control over departments and divisions.

- In a decentralized structure, the decision-making power is distributed and the departments and divisions may have different degrees of independence.

# Internal Environmental Factors

**Organizational structure: Factors influencing organizational structure**

- The organizational structure of any organization depends on many factors including:
  - The work it does;
  - Its size in terms of employees;
  - Revenue;
  - The geographic dispersion of its facilities;
  - The range of its businesses;
  - Organization s objectives and strategy.

## Internal Environmental Factors

**Organizational structure: Types of organizational structures**

- There are multiple structural variations that organizations can take on, but there are a few basic principles that apply and a small number of common patterns:
    - ***Traditional organizational structure***
        - Line organizational structure,
        - Line and staff organizational structure,
        - Functional organizational structure,
        - Geographic organizational structure,
        - Product organizational structure,
        - Customer/market organizational structure,
    - ***Project organizational structure;***
    - ***Matrix organizational structure;***
    - ***Committee organizational structure;***
    - ***Divisional organizational structure;***
    - ***Hybrid organizational structure.***

## Internal Environmental Factors

**Competitiveness**

- Competitiveness refers to the ability of organizations to compete in domestic and global markets.

- Competitiveness is an ability of a organization or a nation to offer products that meet the quality standards of the local and world markets at prices that are competitive and provide adequate returns on the resources employed or consumed in producing them.

- Competitiveness is a holistic concept which takes a whole set of issues and concerns from the ultimate output to the users to the processes that generate that output and in due course takes cognizance of the basic inputs.

## Internal Environmental Factors

**Competitiveness: Levels of competitiveness**

- ***Country competitiveness*** – the goal of competitiveness is to maintain and increase the real income of its citizens, usually reflected in the standard of living of the country.

- ***Industry competitiveness*** – focuses on collective circumstances in particular industry and on the behaviors of companies in that particular industry.

- ***Company competitiveness*** – focuses on individual organizations and their strategies for operations, resource positions etc.

## Internal Environmental Factors

**Competitiveness: Pillars of competitiveness**

- ***Assets*** – brand, reputation, culture, systems, human resources, technology, tangible resources.

- ***Processes*** – strategy, innovations, quality, flexibility, adaptability, persuasion power, IT applications, managing relationships, design and deploy talents, marketing, manufacturing.

- ***Performance*** – profitability, price, cost, variety, range, productivity, market share, customer satisfaction, value creation.

## Internal Environmental Factors

**Managerial team**

- Managerial team is generally a team of individuals at the highest level of organizational management who have the day-to-day responsibilities of managing a organization.

- Managerial team is chosen and appointed by the board of directors.

- The managerial team works in the business whilst the board works on the business.

## Internal Environmental Factors

**Managerial team: Positions at the managerial team**

- Chief Executive Officer CEO
- Chief Financial Officer CFO
- Chief Marketing Officer CMO
- Chief Security Officer CSO
- Chief Information Officer CIO
- General Counsel
- Chief Operations Officer COO
- Chief Procurement Officer CPO
- Chief Revenue Officer CRO
- Chief Technology Officer CTO
- Chief Visionary Officer CVO
- Chief Human Resources Officer CHRO
- Chief Learning Officer CLO

## Internal Environmental Factors

**Managerial team: Management competence**

- Management competence is without doubt a key factor in developing strategies to further an organization s mission, in achieving an organization s objectives and in improving its performance.

- Business organization success is considered in terms of both financial and non-financial measures and is shown to depend upon the organization achieving certain critical success factors, which, in turn, depends upon the organization s capacity to maintain and develop core competences.

- The effectiveness of teams depends upon both the competences and personalities of team members along with a wide range of organizational characteristics.

## Internal Environmental Factors

**Organizational resources**

- These are all the physical or human inputs used in the organization to create outputs in the organization of product or services through a transformation process.

- Organizational resources are all assets that are available to a business organization for use during the production process. Organizational resources are combined, used and transformed into finished products during the production process

- The cost and availability of these resources are important factors that determine the success of an organizations policy and strategy. Organizational behavior demonstrates as a result of influences and forces operating in the internal environment of determine the ability or constraints in the usage of resources.

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## Internal Environmental Factors

### Organizational culture

- Organizational culture defines employee behavior in the internal environment and shows how well the organization will adapt to the external environment.
- Organizational culture can be defined as the set of key values, beliefs, understanding and norms shared by members of an organization.
- The concept of organizational culture helps managers understand hidden and complex aspects of organizational life.
- Organizational culture is a pattern of shared values and assumptions about how things are done within the organization. This pattern is learned by members as they cope with external and internal problems and is taught to new members as a suitable way to perceive, think and feel.

## Internal Environmental Factors

**Organizational culture: Elements, levels and dimension of organizational culure**

- ***Organizational culture includes these elements:***
    - *Habits;*
    - Attitudes;
    - Deep-seated values of the business organization.

- ***Levels of organizational culture are:***
    - Artifacts;
    - Espoused values;
    - Basic underlying assumptions.

- ***Two dimensions of organizational culture:***
    - Climate-morale;
    - Involvement.

## Internal Environmental Factors

**Organizational culture: Major resources of organizational culure**

- Beliefs, values and assumptions of the founders of organizations.
- Learning experiences of group members as organizations change.
- New beliefs, values and assumptions introduced into the organization by new members or leaders.