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COURSE: BUS 101/ACC 103/MAC 201 - INTRODUCTION TO BUSINESS I
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THE ENVIRONMENT OF BUSINESS

Management functions are not performed in a vacuum but in an environment. Organizations are open systems that must interact and respond to the environment. The performance of management functions is influenced and impacted by the environment of management. Some environmental variables are uncontrollable while some are controllable. An understanding and appreciation of the environment of management will assists managers to be effective in their tasks. The environment that an organization and managers are exposed to is the external and internal environments. Managers need to scan the environment to discern the opportunities and the threats existing in the environment.

The environment of business is made up of all the elements that are relevant to an organization's operations. This means that to survive in the business environment, organizations must anticipate, interact, act and react to the environment so as to utilize the opportunities and avert the threats that exist in the environment. In order to take advantage of the opportunities and avert the threats of the environment, organizations must have an understanding and appreciation of the elements or factors of the environment. The business environment is made up of:

a) internal environmental variables and
b) external environmental variables.

INTERNAL ENVIRONMENT

The internal environment refers to the variables/factors that immediately influence how work is done and goals are achieved. The internal environment of an organisation consists of variables (Strengths and Weaknesses) that are within the organization itself and are not usually within the short-run control of top management. Key strengths form a set of core competencies that the organisation can use to gain competitive advantage. To exploit opportunities for organisational effectiveness and minimise threats which are products of external environment, managers must carefully analyse their organisation's internal resource profile. Factors that make up the internal environment are corporation's structure, culture, and resources.

1. **Owners and Ownership Structure:** Owners (shareholders and boards of directors) do influence the powers structure in an organisation. The nature and structure of the shareholders and boards of directors of an organization can affect the effectiveness or otherwise of organizations.

The type of ownership structure in a company has implication on the nature of interpersonal and group processes that are manifesting in an organisation. A sole proprietorship business will have a different communication pattern, pay structure, job security and tenure, when compared with a public owned corporation. These differences inevitably affect managerial and non-managerial efficiency and motivation at work.

2. **Organisational/Corporate Culture:** This refers to a system of shared values, assumptions, beliefs, and norms that unite members of an organisation. It reflects common views about "the way things are done around here" (Kilmann et al., 1986). Culture is very important to organisations because as individuals act on shared values and other aspect of organisational culture, their behaviours can have a significant impact on organisational effectiveness. Organisational culture can develop from drive and imagination of individuals involved in the reward systems, policies and procedures that are instituted within the organisation.

3. **Human Resources (Employees):** These are the people that implement and execute the operations of an organization in functional areas of accounting, marketing, finance, production, personnel, Research and Development (R&D), etc. Organizations need highly trained, motivated and skilled employees to achieve organizational goals. In an organization, where the required employees are lacking, management effectiveness may be constrained, and the quality of top management of a company in

the functional areas will have implication on the quality of the strategy being articulated by the company and overall well-being of the company.

EXTERNAL ENVIRONMENT

The external environment consists of variables (Opportunities and Threats) that are outside the organization and not typically within the short-run control of top management. These variables form the context within which the corporation exists. They may be general forces and trends within the natural or societal environments or specific factors that operate within an organization's specific task environment (industry). External environment is made up of those factors or variables that can directly and/or indirectly affect an organization significantly. External environment consists of three group of elements which are:

i) the task environment (industry),
ii) the general/mega/societal environment, and
iii) the natural/physical environment

i) The Task Environment: This is made up of stakeholders (individuals or groups) who are directly affected by the operations of an organization. They include customers, suppliers, governments, media, labour unions, financial institutions and competitors.

1. Customers/Clients: Customers buy the products of an organization and so give value to the operations of an organization. The satisfaction of the customers is a key to successful management and so organizations need to interact and respond to the need of the customers. A customer can be an individual, an institution or a firm. An understanding of the customers will assist the organization in tailoring its marketing efforts (product, price, place and promotion) in order to satisfy the customers and achieve its goals.

The modern day businesses pay attention to customers' needs and are customer-oriented. They investigate how best to serve their customers so as to maintain their market share in the face of fierce competition. Noting that the satisfaction of customers' needs is the reason for the existence of a firm, organisational managers must pay special attention to this element in the task environment. They must find out their needs and how best to deliver them. A company that has superior capacity on how to service its customers will excel better within the industry, and this can be a strong competitive weapon.

2. **Suppliers:** These are the suppliers of the input (resources) used by organizations for production. Organizations depend on suppliers to meet their requirements for material and labour needs. They prefer suppliers that offer low prices and supply high quality inputs. The inputs supplied determined the quality and quantity of products that the organization can produce (output). Most organizations have established good businesses relationships with their suppliers so as to have constant supply of inputs needed for production.

3. **Government:** In the normal course of activities, government is expected not to interfere with business. However, in today's world, government does and must interfere and intervene in business. This could be due to economic as well as political reasoning. Government through rules, regulations and policies, influences and affects the operations of organizations. Government has created agencies to monitor and regulate the operations of organizations. Thus, awareness of the government rules and regulations will assist management in adopting and adapting the organization to its environment.

4. **Labour Unions and Trade Associations:** Employee are members of labour unions. There may be no labour union in an organization, yet the employees may be members of a larger labour union and so affected by the activities of labour unions. Labour unions may call on their members to embark on industrial actions to present their grievance, change policies, protest economic measures, seek increase in welfare an economic benefits for members etc. These will certainly affect the operations of organizations and the effectiveness of management hence the need for a grasp of the activities of labour unions by management is recommended.

5. **Media:** The media serves as medium between organizations and the society. Information about organization is provided to the public through the media. In the same vein, organizations receive information from the public most of the times through the media. The role of the media is therefore very critical in the operations of organizations. Acceptance and rejections of the operations, systems, behaviours, practices and products of organizations, is conveyed through the media. The structure of the media affects the effectiveness of organizations have a public relations union which is a media link to the society. The media can influence and affect organizations as most people depend on the media for information about organizations. A negative information from the media on an organization would be perceived as true and affect the public perception of such an organization's products, systems and management. Management needs to be aware of the potentials of the media so as to act appropriately.

6. **Special interest groups:** Special interest groups through advocacy, diplomacy and militancy pressurizes organizations on specific issues like abortion, cigarettes, gun control, sex education and social responsibilities. The pressures tend to make organizations to alter their course of operations, systems, and even management practices. Some interest groups lobby the legislature to make laws regarding their interest, which may not be in the interest of organization hence, the need to be sensitive to the special interest group's activities.

7. **Financial institutions (Creditors):** Financial institutions provide the necessary financial intermediation services required by organizations for their operations. Organizations at times need to borrow from financial institutions in order to finance replacement or expansion of facilities. The availability or non-availability and the capacity of the financial institutions to serve organizations affect organizations activities. Management should create an enabling working relationship with financial institutions in order to minimize the likely effect of financial shocks that organizations are exposed to in the course of operations.

8. **Competitors:** Organizations operate in a competitive world, where they are seeking the attention of the same customers group just as their competitors. The practices of competitors affect an organization's practices. Where competitors offer

superior quality products at low prices, an organization has to do better than the competitor if it intends to draw and retain the attention of customers. The ability or inability to respond to competition may affect the effectiveness of organizations and so management should be conscious of the activities of competitors.

9. Shareholders: Through voting rights, shareholders have the capacity and capability to influence organizational direction and thrust. Shareholders through their decisions have enhanced the effectiveness of organizations, while some have seen the collapse of some organizations. Management should create an enabling working relationship with its shareholders in order to enhance the well-being of the organisation.

ii) General or Mega or Societal Environment: Every organisation in a particular industry is exposed or affected by the indirect environment. It affects organizations indirectly and is made up of factors such as laws, competition, technology, and social cultural trends. These are the variables that indirectly affect the management of organization.

1. Social-Cultural Environment: This environment includes institutions, people and their values, and the norms of behaviour that are learned and shared. It can be classified into demographics, lifestyles, social values and culture. Demographic is the make-up of the population in terms of age, sex, family size etc. This tends to affect organizations in terms of demand for products, profits, level and survival, labour force, etc.

a. Lifestyles: This is all about people's attitudes and values. For most people, these days, as a result of the dynamic of the environment, their lifestyles are characterized with changes. The changes in lifestyles do affect the products offered by organizations, the marketing message, reward package, leadership and organizational culture. This present problems and prospects for organizations.

b. Social Values: These refer to the accepted social behaviour, norms and values. Social values vary from one environment to another. The social values of an environment affect leadership style, management practices, economic goals, labour-management relationship, social responsibility etc. of an organization. This may present as problems or prospects of organizations. Some social behaviours are frowned at as unethical business practices in certain environments and that tends to constrain management practices in such environments.

c. ***Culture:*** Culture is the distinctive way members of a particular society interact with one another and with outsiders and how they achieve what they do. Culture has an impact on effectiveness of organizations in the area of employment, discipline, reward system, finance and effectiveness of goals. Culture affects organizations and organizational culture affects employee’s effectiveness and organizational goals. It affects the very survival of the organization and could be an opportunity or threats to the organizations, so management needs to be aware in order to respond appropriately.

2. **Economic Environment:** The economic environment directly affects economic activities of organization. It consists of price, demand, supply, gross national products, gross domestic product, per capital income and other economic indices like the exchange rate, stock exchange indexes, under-employment etc. These economic issues and problems can and do affect management decision making and planning. So an understanding of the economic variables will aid management in planning and decision making as the opportunities and threats posed by the economic environment can be discerned. Prices charge by organizations for goods and services, cost of operations, demand for products, supply of input for production, reward systems etch are some of the issues that hinge on the economic environment.

3. **Technological Environment:** Technology is the totality of the means used by people to provide comfort and sustain human existence. Technology is neutral and natural and is not the problem or reasons for problems occurring in the world. Rather, it has touched on almost every aspect of human life and made possible so many possibilities. To the credit of technology, there are varieties of products, low cost production, safer and efficient methods of production, more leisure time for workers, improved human life and affluence. Technology innovations and discoveries are made as a result of research effort and it takes a lot of finance to embark on a research. It creates opportunities and threats to organizations and affects management practices. Technology can result to changes in taste and demand, insolvency of product, creates new competitions, redefines organizations and customer's relationship etc. An understanding of the technological environment will assist managements in improving products, seek new customers, lower cost of operations, generate more profits, achieve organizational goals, and hasten the introduction of new products.

4. Political-Legal Environment: This consists of government rules and regulations that apply to organizations. Government make rules and regulations to ensure the smooth operations of organizations and to control organizations activities. The rules and regulations affect organizations in a variety of ways. It can support organization's activities through government subsidies, contracts, research and promotion. Government subsidy directs the flow of resources to preferred users (organizations). It also promotes business through tariffs that restrict foreign competition with local industries. Government awards contracts for production, service and construction to organizations and this stimulate business operations. The government also supports most of the research efforts in form of research grants to research institutions and organizations.

The rules and regulations of government can also serve to control organizations through investigation and direct control. By investigating and publishing findings of organizational practices, the government has been able to influence public opinion about an industry, company, or product. Government prescribes standards of conduct, operations, or service for organizations, which are designed to protect consumer's employees, competitors and investors, control entry into specific industries and to protect health morals and safety. Managers must pay attention to the political legal environment and its variables, so as to respond appropriately to the opportunities and threats that arises as a result of government support of organizations activities.

iii) Natural/Physical Environment: These are natural resources that the business environment is endowed with. They include the climate, wildlife, availability of land, mineral resources, raw materials and infrastructural facilities. A key example of the type of environment is the ecological environment.

Ecological Environment: The ecological environment is made up of our natural surroundings and the need for harmony between living things and their environment. There is increased concern to protect, preserve and conserve the environment for human existence. This has implications for management and organizations. Organizations must assess and control pollution as it is a problem of the environment and must also minimize organizations operations that have negative impact on the natural environment. Ecological issues include, energy, pollution, deforestation, species loss, soil erosion, etc. that affect the environment negatively.

Managers and organizations can respond to the ecological environment by making decisions that result to minimal pollution of the environment, environment friendly products, and production methods, recycling of materials and effective waste disposal systems. The ecological issues may be opportunities or threats to organizations and so managers need to be conversant with the ecological environment in order to respond appropriately.

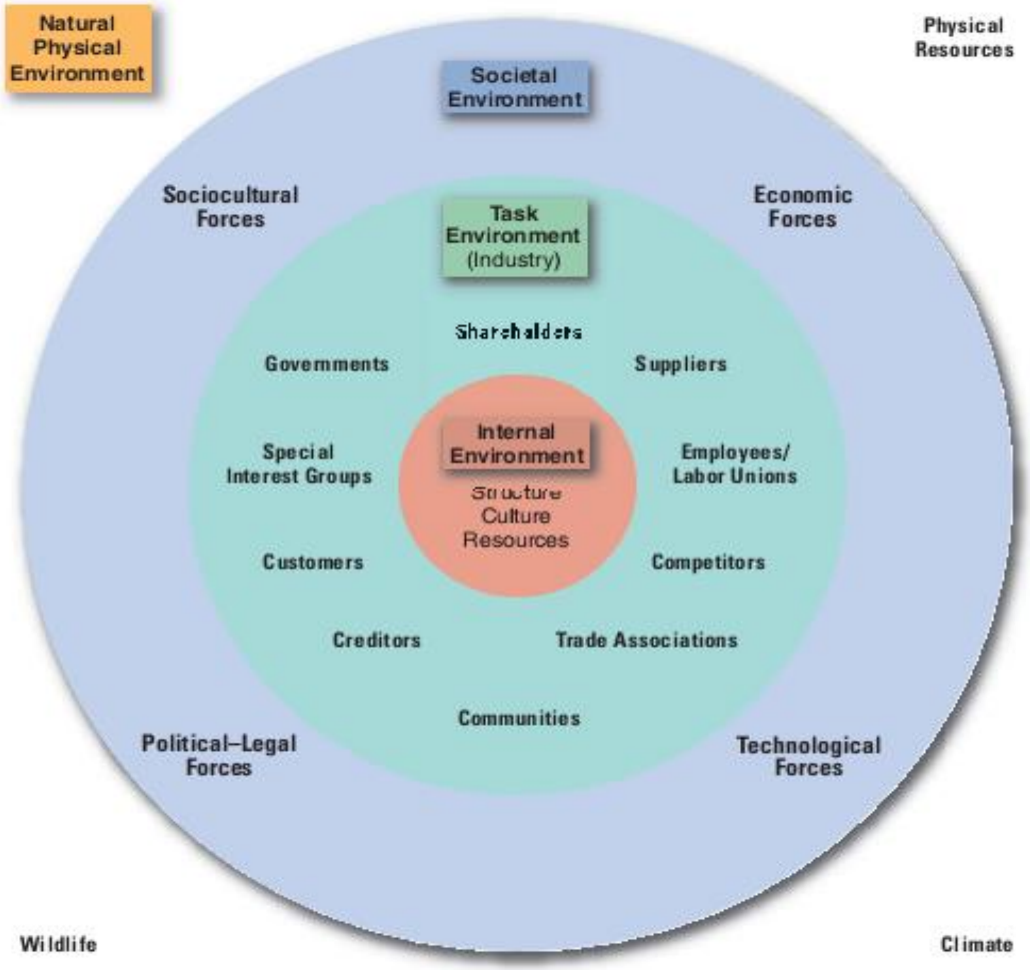

Figure 1: Environmental Variables