

A black and white photograph showing the silhouettes of four people in a modern office setting. They are standing near a large window, looking out. In the foreground, there is a desk with a laptop, a pen, and some papers with charts.

Unit

Business Environment

Learning Objectives

After learning this unit, you should be able to:

- explain the concept of business environment;
- describe the importance of understanding business environment;
- differentiate the internal and external environments;
- describe the various components of the internal and external environments and the micro and macro environments.



Warm-up Questions

1. What do you think of the business environment in China?
2. What factors will influence the operation of a business?
3. How can we classify the factors that influence the business operation?



Reading

A business, also known as an enterprise, a company, or a firm, is an organizational entity, involved in the provision of goods and services to consumers. Businesses are prevalent in economies. Most of them are privately owned, and provide goods and services to customers in exchange for other goods, services, or money. Businesses may also be non-profit enterprises or state-owned enterprises, targeted for specific social and economic objectives. A business owned by multiple individuals may be formed as an incorporated company or jointly organized as a partnership. Countries have different laws and may ascribe different rights to various business entities. Contemporary businesses have various goals, including making profits, achieving growth, market leadership, customer satisfaction, employee satisfaction, providing quality products and services, or providing service to society.

The term “business environment” is composed of two words: “business” and “environment”. In simple terms, the state in which a person remains busy is known as business. The word “business” in its economic sense means human activities like production, extraction or purchase or sales of goods that are performed for earning profits. On the other hand, the word “environment” refers to the aspects of surroundings. Therefore, business environment may be defined as a set of conditions—social, legal, economic, political or institutional—that are uncontrollable in nature and affect the functioning of an organization. Generally speaking, business environment today has some characteristics: It’s getting more and more complex, dynamic, multi-faceted, and it has a far-reaching impact on people’s lives.

Why do companies need to study the business environment? Just because it can help them to develop broad strategies to ensure their sustainability, to foresee the impact of socio-

economic changes, to analyze the competitors' strategies and take effective counter measures, and it can also help them to keep dynamic.

The business environment can be divided into two parts: internal environment and external environment. The internal environment of a company is the sum total of all internal factors that influence its operation, including its mission, policies, formal structure, corporate culture and so on. The external environment is the sum total of all external factors that influence a business. These external factors refer to all factors that happen outside the business. The external environment of a company can be subdivided into micro/operating environment and macro/general environment. The micro/operating environment of a company refers to the external factors that influence the company specifically, such as its suppliers, customers, market intermediaries, competitors, public and so on. The macro/general environment of a company refers to the external factors that affect the entire economy, not just one company, including economic factors and non-economic factors such as political factors, socio-cultural factors, technological factors, demographic factors and so on. A company can improve its internal environment through its own efforts, but has less control over its external environment.

1.1 Internal environment

An organization's internal environment is composed of the elements within the organization, including current employees, management, and especially corporate culture, which defines employee behavior. They are generally regarded as controllable factors. The company can change or modify these factors to suit the environment. The following sections describe some of the elements that make up the internal environment.

(1) Organizational mission statement

An organization's mission statement describes what the organization stands for and why it exists. It explains the overall purpose of the organization and includes the attributes that distinguish it from other organizations of its type. Effective mission statements lead to effective efforts. In today's quality-conscious and highly competitive environment, the purpose of an effective mission statement is centered on serving the needs of customers.

For example, the mission statement of Bank of East Asia (BEA) goes like this: "We at BEA strive to provide best in class financial service, always demanding the highest standard of professionalism and integrity of ourselves. With a commitment to quality of service, we focus on satisfying customer needs. We aim to grow together with our customers, our shareholders



and our colleagues.” We can see exactly what the bank is striving for from this mission statement.

(2) Company policy

Company policies are guidelines that govern how certain organizational situations are addressed. Just as colleges maintain policies about disciplines, companies establish policies to provide guidance to managers who must make decisions about circumstances that occur frequently within their organization. Company policies are an indication of an organization's personality and should coincide with its mission statement.

(3) Formal structure

The formal structure of an organization is the hierarchical arrangement of tasks and people. This structure determines how information flows within the organization, which departments are responsible for which activities, and where the decision-making power rests. Some organizations use a chart to simplify the breakdown of its formal structure. This organizational chart is a pictorial display of the official lines of authority and communication within an organization.

(4) Organizational culture

The organizational culture is an organization's personality. Just as each person has a distinct personality, so does each organization. The culture of an organization distinguishes itself from others and shapes the actions of its members. Corporate culture is based on the shared values, heroes, rites and rituals and the social network among the staff. Values are the basic beliefs that define employees' success in an organization. A hero is an exemplary person who reflects the image, attitudes, or values of the organization and serves as a role model to other employees. The hero is sometimes the founder of the organization. However, the hero of a company doesn't have to be the founder; he can be an everyday worker who had a tremendous impact on the organization. Rites and rituals are routines or ceremonies that the company uses to recognize high-performing employees. The social network is the informal means of communication within an organization. This network, sometimes referred to as the company grapevine, carries the stories of both heroes and those who have failed. It is through this network that employees really learn about the organization's culture and values.

(5) Organizational climate

A byproduct of the company's culture is the organizational climate. The overall tone of the workplace and the morale of its workers are elements of daily climate. Worker attitudes dictate

the positive or negative “atmosphere” of the workplace. The daily relationships and interactions of employees are indicative of an organization’s climate.

(6) Resources

Resources are the people, information, facilities, infrastructure, machinery, equipment, materials, supplies, and finances at an organization’s disposal. People are the most important resource of all organizations. Information, facilities, infrastructure, machinery, equipment, materials, supplies, and finances are supporting nonhuman resources that complement workers to accomplish the organization’s mission statement. The availability of resources and the way that managers value the human and nonhuman resources impact the organization’s environment.

(7) Managerial philosophies

A managerial philosophy is the manager’s set of personal beliefs and values about people and work and as such, is something that the manager can control. These managerial philosophies then have a subsequent effect on employee behavior, leading to the self-fulfilling prophecy. As a result, organizational cultures and managerial philosophies need to be in harmony.

(8) Managerial leadership styles

The number of co-workers involved within a problem-solving or decision-making process reflects the manager’s leadership style. Empowerment means delegating to subordinates decision-making authority, freedom, knowledge, autonomy, and skills. Fortunately, most organizations and managers are making the move toward the active participation and teamwork that empowerment entails.

1.2 External environment

A business does not function in a vacuum. It has to act and react to what happens outside the factory and office walls. These factors that happen outside the business are known as external factors or influences, which include government and legal factors, geo-physical factors, political factors, socio-cultural factors, demographic factors, etc. These factors are generally uncontrollable. They will affect the main internal functions of the business and possibly the objectives of the business and its strategies. External environment is of two types: micro/operating environment and macro/general environment



(1) Micro/operating environment

The environment which is close to business and affects its capacity to work is known as micro or operating environment. It consists of suppliers, customers, market intermediaries, competitors, and the public.

Suppliers

They are the persons who supply raw materials and required components to the company. They must be reliable and a business must have multiple suppliers, that's to say, it should not depend upon only one supplier.

Customers

Customers are regarded as the king of the market. Success of every business depends upon the level of its customers' satisfaction. The types of customers include wholesalers, retailers, industries, government and other institutions, and foreigners.

Market intermediaries

Market intermediaries work as a link between a business and final consumers, which include the middlemen, marketing agencies, financial intermediaries, and physical intermediaries.

Competitors

Every move of the competitors affects the business. A business has to adjust itself according to the strategies of the competitors.

The public

Any group who has actual interest in a business enterprise is termed as its public, for example, media and local public. They may be the users or non-users of a product.

In summary, the five aspects mentioned above are just the basic elements of a company's micro environment. Now let's take a car manufacturer as an example. Its micro environment consists of the component suppliers, the customers, the car dealers, the competitors, and the stakeholders including the local communities, the pressure groups, and the government, because all these factors have a direct influence on the car manufacturer.

(2) Macro/general environment

Besides the micro environment, the macro environment also matters in a business. It is relatively more intricate when compared with the micro environment. Macro environment comprises general trends and forces that may not immediately affect the organization, but

sooner or later will alter the way the organization operates. Macro/general environment includes factors that create opportunities and threats to business units. The following are the elements of macro environment.

Economic environment

The larger economic environment of a society is a factor that can affect a company's business environment. During a recession, consumers spend less on optional items such as cars and appliances. As a result, the business environment suffers. On the other hand, if the economic environment is one of prosperity, consumers are more likely to spend money, not just on necessities, but larger items as well.

Economic environment is very complex and dynamic in nature, and it keeps on changing with the change in policies or political situations. It includes many economic factors: for example, economic stage that exists at a given time in a country; economic system that is adopted by a country; economic planning, such as five-year plans, budgets, etc.; and economic policies like monetary, industrial, and fiscal policies. It also includes economic indices such as national income, per capital income, disposable income, growth rate of GDP, distribution of income, rate of savings, balance of payments, etc. Besides them, the major economic problems of a country and the functioning of its economy can also be regarded as factors of the economic environment.

Political environment

Political environment includes factors like the nature of government policies, particularly those related to taxation, industrial relations, regulations of domestic businesses and industries, and foreign trade regulations. It also relates to the stability of the government in power and risk of major political disturbances.

The political environment can affect the economic environment of businesses. Legislators at different levels may provide incentives or tax breaks to companies or they can impose regulations that restrict business transactions. For example, if a government states that a company must include a certain chemical in its product, then the cost of the product differs. The company passes those costs on to the customer in the form of higher prices. The customer must determine whether he wants to purchase that product. If he does not purchase the product, then the company does not receive the revenue. If a large number of customers decide not to purchase the product, the company may need to layoff employees. From this example, we can see that political factors can have direct or indirect influences on businesses.



Socio-cultural environment

Influence exercised by social and cultural factors, not within the control of a business, is known as socio-cultural environment. Socio-cultural factors cover the nature of the lifestyle, culture, attitude, and other such common factors that influence and describe the behavioral characteristics typical of the people. These factors include: people's attitude towards work, family system, caste system, religion, education, marriage, etc.

Social factors that affect the economic environment of a business are the cultural influences of the time. For example, a fashion designer that creates bell bottom, striped pants will not succeed in an environment where straight-leg, solid colored pants are desired. A social environment that tends to be more conservative will not support styles that appear to be trendy. The fashion designer's business will suffer if he does not change the clothing style. The same would apply to the manufacturers that produce and stores that sell these wares.

Technological environment

A systematic application of scientific knowledge to practical tasks is known as technology. Innovation and technology affect business environments. Technological dimension covers the nature of technology available and used by an economy or industry in general. It also covers the extent to which developments in technologies are likely to take place. This may be reflected in factors like expenditure on R&D and rate of obsolescence.

Every day there have been vast changes in products, services, lifestyles, and living conditions, and these changes must be analyzed by every business unit. As technology advances, a business is forced to keep pace. For example, when computers were first invented, they were the size of a room. Users were forced to employ punch cards to perform basic functions. Today, computers are much more powerful and can fit into the palm of a hand. Businesses that do not keep up with technology will risk having increased costs of production and higher prices. If the company's cost of producing a product or service outpaces its competitors', then the company may soon find itself out of business.

Natural environment

Natural environment refers to the physical or geographical environment affecting the business. It includes natural resources, weather, climatic conditions, port facilities, and topographical factors such as soil, sea, rivers, rainfall, etc. It also includes considerations like the environmental pollution. Every business unit must consider these factors before choosing the location for business.

Demographic environment

Demographic environment is about the study of the population, for example, its size, standard of living, growth rate, age-sex composition, family size, income level (upper level, middle level, and lower level), education level, etc. Every business unit must see these features of the population and recognize their various needs and produce products accordingly.

International environment

International environment is particularly important for industries directly depending on imports or exports. The international factors that affect the business are globalization, liberalization, foreign business policies, cultural exchange, growth of the world economy, distribution of the world GDP, international institutions like the IMF, WTO, economic relations between nations, global human resources like the nature and quality of skills, labor mobility, global technology and quality standards, and global demographic patterns.

As stated above, business enterprises cannot remain independent of society and the institutions, so whatever decision they take has to be in tune with the requirements of society and the dictums of the institutions. A business organization has to continuously monitor the environment so as to identify the business opportunities and threats. The process by which organizations monitor their environments and identify the opportunities and threats affecting their business is known as environmental scanning. SWOT analysis is a useful technique for businesses to understand their strengths and weaknesses, and to identify both the opportunities open to them and the threats they face. By exploring its strengths and minimizing its weaknesses, if the organization can capitalize the opportunities and effectively reduce the threats, then it would be able to grow.



Words and Phrases

distribution	<i>n.</i>	分销
non-profit enterprise		非营利企业
state-owned enterprise		国有企业
incorporated company		股份公司
cost of labor		劳动力成本
raw material		原材料
corporate culture		企业文化



mission statement		经营宗旨
organizational climate		组织氛围
managerial philosophy		管理理念
shareholder	<i>n.</i>	股东
company policy		公司政策
formal structure		正式结构
hierarchical	<i>adj.</i>	等级体系的
organizational chart		组织结构图
shared value		共同价值观
grapevine	<i>n.</i>	消息传播途径
byproduct	<i>n.</i>	副产品
morale	<i>n.</i>	士气
supply	<i>n.</i>	供应品；物资
supplier	<i>n.</i>	供应商
market intermediary		市场中介
wholesaler	<i>n.</i>	批发商
retailer	<i>n.</i>	零售商
financial intermediary		金融中介
car manufacturer		汽车制造商
car dealer		汽车经销商
recession	<i>n.</i>	经济衰退
fiscal	<i>adj.</i>	财政的
national income		国民收入
per capita income		人均收入
disposable income		可支配收入
growth rate of GDP		GDP 增长率
distribution of income		收入分配
rate of savings		储蓄率