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Introduction

- Business organisations are not self-sufficient or autonomous
- Obtain resources from society and environment
- Mutual dependency increases in complexity when variables in environment change
- Innovation or political developments bring about change that impacts in different ways
The business and environmental change

• Change is the only constant reality of our time
• Environmental variables are constantly changing the environment in which businesses operate
• The South African environment has changed significantly over the past 20 years
• New opportunities and threats emerging daily
The business and environmental change (continued)

- Management must adapt to these changes to ensure survival in a competitive environment
- To do this, it is crucial to understand the composition of this environment
The business environment
The composition of the business environment

• The micro-environment consists of the business itself, over which management has complete control
• The market environment is encountered immediately outside the business organisation and consists of four key variables
• The macro-environment is outside the organisation and the market environment and consists of six distinct variables
The composition of the business environment

The enterprise has only a slight influence on the macro-environment.

**MICRO-ENVIRONMENT**
- Mission and objectives of the organisation
- The organisation and its functional management, such as marketing management or financial management
- Resources, such as human resources, capital and know-how

The business’s influence on the market through its strategy

**MARKET ENVIRONMENT**
- The market, consisting of consumers and their needs, purchasing power and behaviour
- Suppliers
- Intermediaries
- Competitors

Direct influences on the business, such as by competitors or consumption expenditure

Indirect influences on the business through the market environment, such as the effects of taxation on consumer spending

The macro-environment influences the enterprise indirectly, for example through the effects of interest rates on financial management, or the legislation that human-resources management must comply with

**MACRO-ENVIRONMENT**
- Technological environment
- Economic environment
- Social environment
- Physical environment
- Institutional-political environment
- International environment
Characteristics of the business environment

• Environmental factors or variables are interrelated
• Increasing instability and change
• Environmental uncertainty
• Complexity of the environment

It is extremely important that management understands these characteristics within the context of their business.
The micro-environment

• Three sets of variables:
  o Vision, mission and objectives of the business
  o Areas of management
    • Functions
    • Structure
  o Resources
    • Tangible resources
    • Intangible resources
    • Organisational capabilities
The market environment

- Four sets of variables:
  - The market
  - Suppliers
  - Intermediaries
  - Competitors.
The market

- ‘Market’ consists of people who have needs to satisfy and the financial means to do so.
- To be successful, management must be informed regarding consumer needs, purchasing power and buying behaviour.
- Directly influenced by variables in the macro-environment.
- Purchasing power is represented by consumers’ personal disposable income.
Types of markets

• The consumer market sub-divided by products:
  o Durable products
  o Semi-durable products
  o Services.

• Industrial markets

• Government markets

• International markets
Suppliers

• Business organisation is a system that receives inputs from the environment and converts them into outputs in the form of products and services
• Inputs include materials (raw materials, equipment and energy), capital and labour
• Suppliers provide these inputs to businesses
• Without the correct suppliers a business cannot achieve success in a competitive market environment
Intermediaries

- Intermediaries play an vital role in bridging the gap between the manufacturer and the consumer
- Includes wholesalers, retailers, agents, brokers, representatives and spazas
- Decision-making in respect of intermediaries is complicated by:
  - The dynamic and ever-changing nature of intermediaries
  - Relationships with intermediaries.
Competitors

- Businesses compete for a share of the market and a share of the scarce input resources
- Competition is defined as the situation in the market environment in which several businesses, offering more or less the same kind of product or service, compete for the same customers
The competitive forces in an industry

Figure 4.3: The competitive forces in an industry
The macro-environment

- Consists of the wider environment in which the business operates
- Has a direct or indirect influence on the business and its market environment
- Management is unable to control the variables/’mega-trends’ in this environment
- Each variable has an effect on the other variables in the macro-environment
The technological environment

- Technological innovation originates in research and development
- Includes the development of new processes, systems and approaches to management
- Technological development is happening at an increasingly rapid rate
- It is extremely important to monitor trends in the technological environment and the influence on a business’s competitive position
Important areas of technological development

- Water technology
- Mineral technology
- Marine technology
- Agricultural and veterinary technology
- Medical technology
- Transport technology
- Power technology
The economic environment

• The following need to be considered:
  o Economic growth rate
  o Levels of employment
  o Consumer income
  o The rate of inflation
  o Interest rates
  o Exchange rate
  o Monetary and fiscal policy
The social environment

• The following need to be considered:
  o Demographic change
  o Urbanisation
  o Level of education
  o The changing role of women
  o Consumerism
  o Social responsibility and business ethics
  o HIV/Aids
  o Culture
The physical environment

• Issues of concern
  o Population and health patterns
  o Food
  o Water
  o Energy and climate
  o Biodiversity

• Opportunities and threats for business
  o The cost of energy
  o The growing cost of pollution
  o Environmentalism
  o Scarce resources
The institutional-governmental environment

- Political pressure affects management decisions
- Government intervenes through legislation, taxation, import controls, tariffs, price controls, and health regulations
- The market is influenced by government expenditure
- Labour laws and Employment Equity Act have significant implications for businesses
The international environment

- Presents more complex issues for the business manager to consider
- Each country has its own distinctive set of environmental variables
- Globalisation is presenting businesses with many opportunities and threats
- Global threats must be constantly assessed
Opportunities and threats in environment

• Opportunity – a favourable condition or trend in the market environment that can be exploited to advantage by a deliberate management effort

• Threat – an unfavourable condition or trend in the market environment that can, in the absence of deliberate effort by management, lead to the failure of the business, its product or its service
Environmental scanning

• Known as the process of measuring, projecting and evaluating the changes in the different environmental variables

• The extent of environmental scanning is determined by the following factors:
  o The basic relationship between a business and its environment
  o The nature of the environment within which the business operates
  o The source and extent of change.
Methods of environmental scanning

- Updating relevant secondary or published information from a variety of sources
- Adding primary information or special investigations on particular aspects of the environment
- Establishing a scanning unit within the business
Summary

- Business and its environment depend on each other for survival
- Change determines success or failure
- Proactive and anticipate change – also accelerate change
- Adapt organisation to change in environment
- Environmental scanning for taking advantage and averting threats