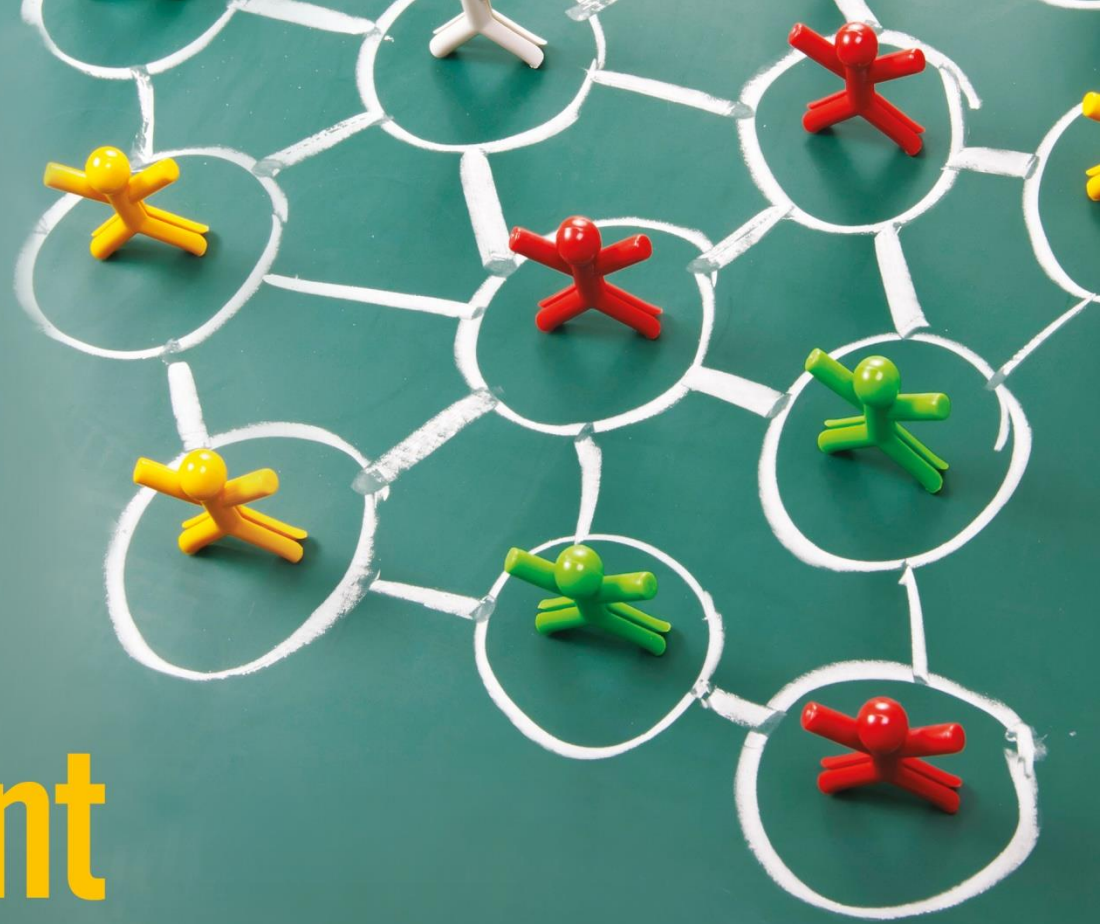




# Definitions p 19

1. Define: Delegation
2. Define: Departmentalisation
3. Term for: In inventory management, it is the most efficient quantity to order when considering both inventory carrying costs and ordering costs.
4. Define: Entrepreneurial process
5. Term for: The process by which individuals pursue opportunities without regard to resources they currently control.

Introduction to  
**Business  
Management**  
9<sup>TH</sup> EDITION



CHAPTER 4  
THE BUSINESS ENVIRONMENT



# Chapter content

- Introduction
- The business and environmental change
- The composition of the business environment
- The Micro-environment
- The Market environment
- The Macro-environment
- Opportunities and threats in the market environment and the macro-environment
- Environmental scanning
- Summary




# 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

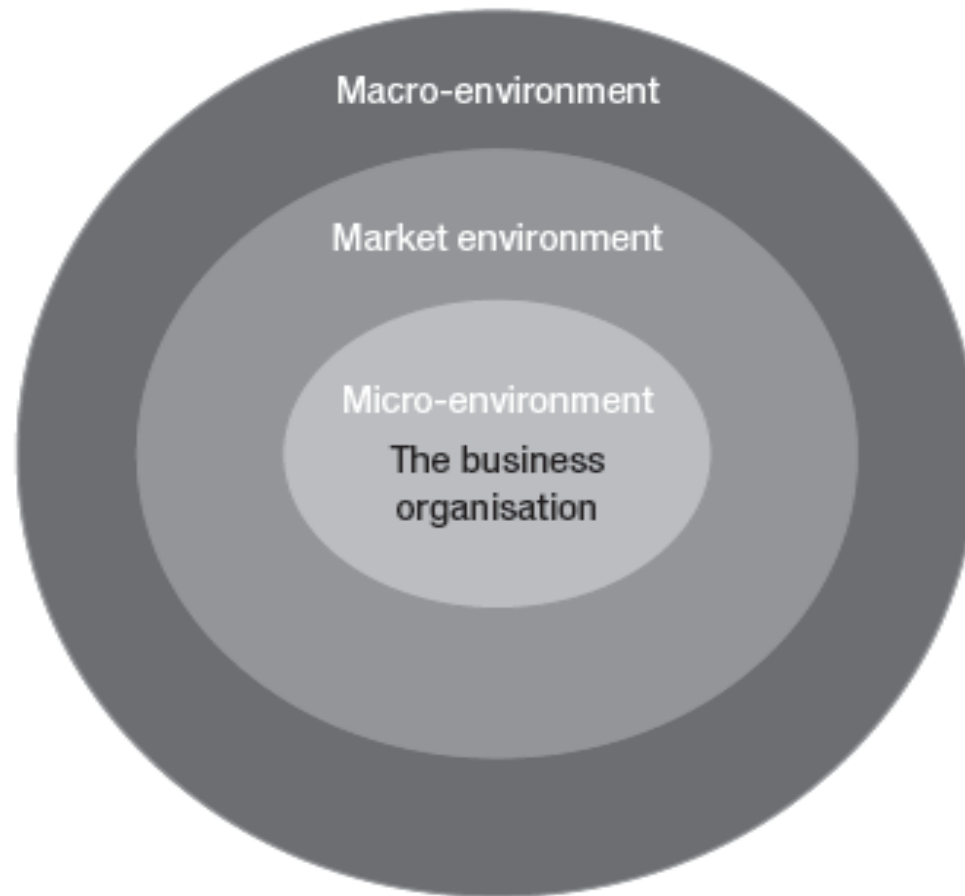


# The business and environmental change (continued)

- 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



**Figure 4.1:** The business environment

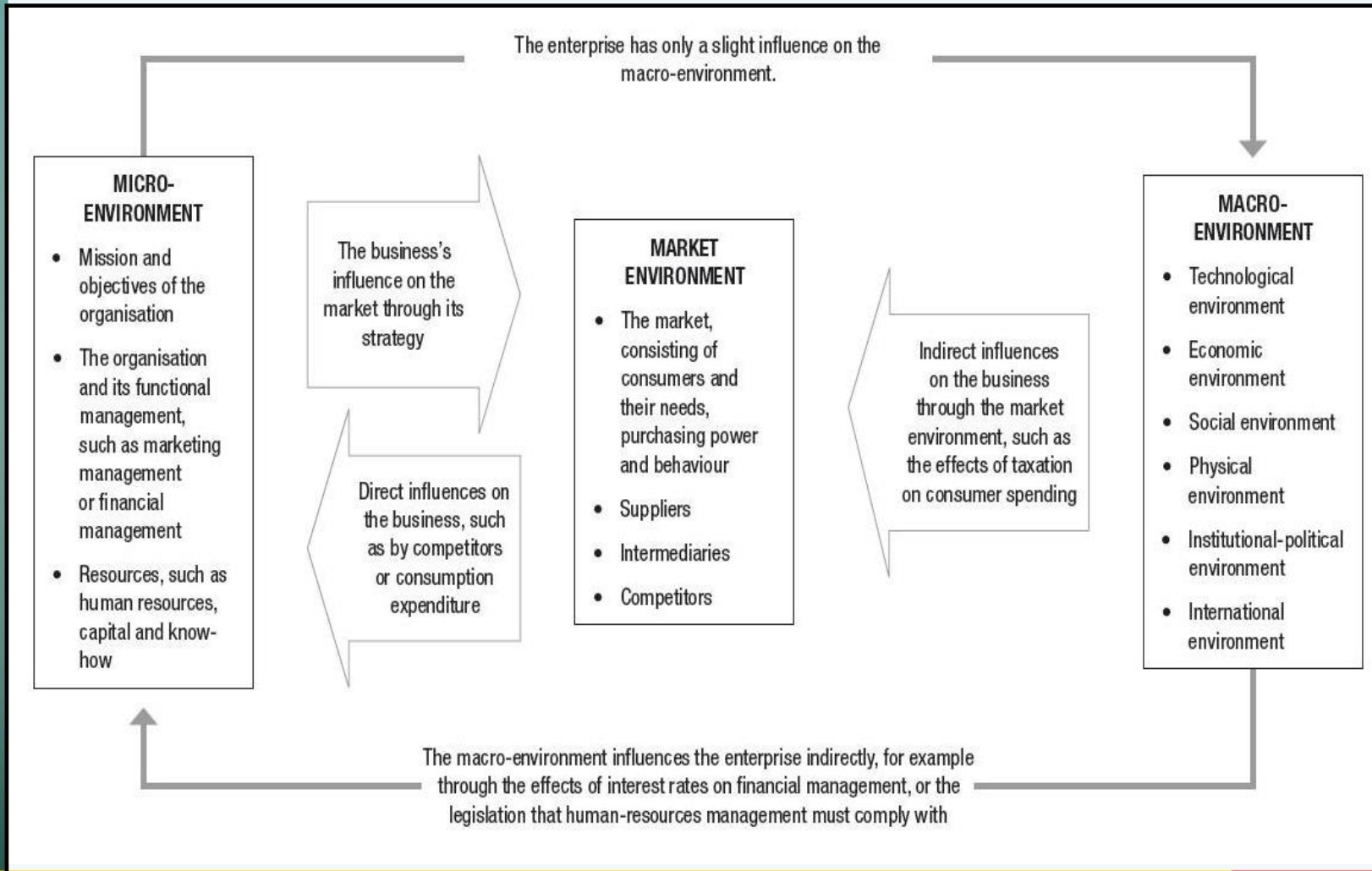


# The composition of the business environment

- 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





# 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:

1. Vision, mission and objectives of the business
2. Areas of management
  - Functions
  - Structure
3. Resources
  - Tangible resources
  - Intangible resources
  - Organisational capabilities



# The market environment

## Four sets of variables:

1. The market
2. Suppliers
3. Intermediaries
4. 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:
  - Durable products
  - Semi-durable products
  - 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 can not achieve success in a competitive market environment



# Intermediaries

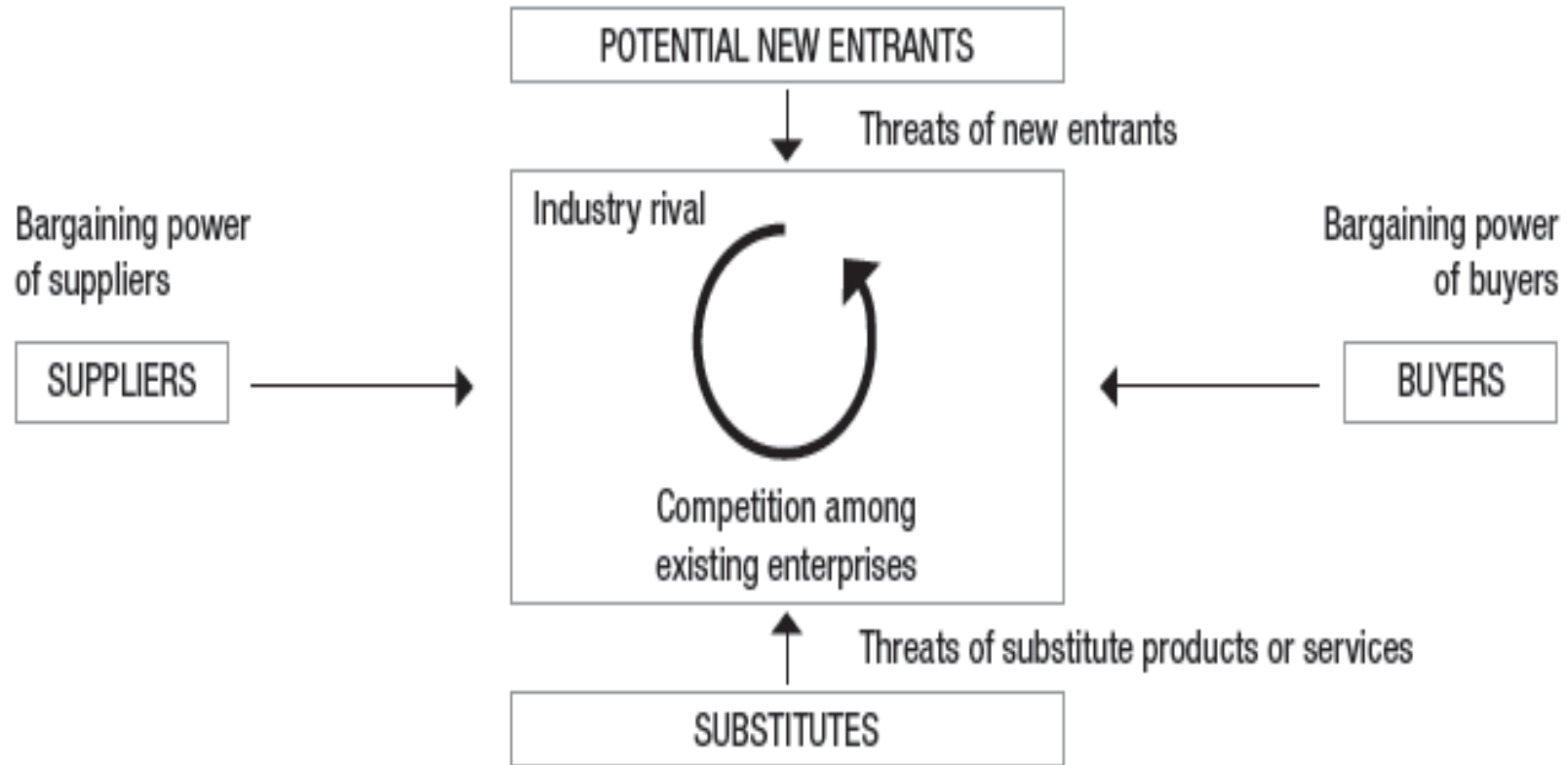
- Intermediaries play an vital role in bridging the gap between the manufacturer and the consumer
- Includes wholesalers, retailers, agents, brokers, representatives and spazas
- Decision-making in respect of intermediaries is complicated by:
  - The dynamic and ever-changing nature of intermediaries
  - 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:
  - Economic growth rate
  - Levels of employment
  - Consumer income
  - The rate of inflation
  - Interest rates
  - Exchange rate
  - Monetary and fiscal policy



# The social environment

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



# The physical environment

- Issues of concern
  - Population and health patterns
  - Food
  - Water
  - Energy and climate
  - Biodiversity
- Opportunities and threats for business
  - The cost of energy
  - The growing cost of pollution
  - Environmentalism
  - 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:
  - The basic relationship between a business and its environment
  - The nature of the environment within which the business operates
  - 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



# Activities

- Definitions page 20
- Prepare assignment
- Review own company relating to environmental scanning (chapter 4) – no submission.