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*PRESENTS*

# BUSINESS STUDIES

TOPIC 2 - BUSINESS ENVIRONMENT

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## Business and its environment.

### Definitions

A business – this is an activity carried out by an individual or an organization with an aim of making profit.

### Purpose of a business

- There are various reasons why people establish businesses, these include:

1. To make profit.
2. To provide goods and services.
3. To create employment opportunities/ to be one's own boss.
4. To make use of skills acquired in educational institutions.
5. To increase the usefulness of products.
6. To make use of resources in the society

### Types of business activities

There are many types of business activities, these include:

- 1) **Extraction** – these are business activities which involve obtaining goods from their natural setting. For example mining, farming, lumbering and fishing
- 2) **Processing of raw materials** – processing is the changing the form of a good without combining it with other goods. For example grinding maize into maize flour, or refining crude oil to get petrol, diesel etc.
- 3) **Manufacturing** – this involves combining different raw materials to come up with one final product. For example baking of bread which is made up of different ingredients
- 4) **Construction** – this involves building structures such as roads, bridges, and houses.
- 5) **Trading** – trade involves buying and selling of goods with a view of making profit. examples are; wholesalers and retailers
- 6) **Distribution of goods** – distribution refers activities involved in moving goods from where they are produced to where they are needed. Wholesalers are distributors as they buy goods from manufacturers and sell them to retailers who in turn sell them to the final consumer.
- 7) **Provision of services** – this deal with selling of services to consumers by organizations or individuals. Examples include: banking, insurance, hair stylist, shoe shining etc.



## Business and its environment

Business environment – this refers to both internal and external factors that affect the performance of the business.

- there are two types of business environments, these are
  1. Internal business environment
  2. External business environment

### Internal business environment

- ✓ These are factors within the business that affect its operations
- ✓ Internal environmental factors are also known as controllable environment; this is because the business has influence and control over the internal factors.
- ✓ Internal environmental factors can either be strength or a weakness to the business. Strength if they lead to better performance of the business and a weakness if they affect the business negatively.
- ✓ Internal business environment is also known as micro-environment.

The following are examples of micro- environmental factors of a business:

#### 1. Business structure

- ✓ This is a formal arrangement of activities carried out at various levels of an organization so that the objectives of the business organization can be achieved. An organization structure defines the duties responsibilities of all the workers and the hierarchy of power [shows who should report to whom].
- ✓ A well laid down structure is likely to lead to the success of the business because:
  - ✓ Each employee knows their duties and responsibilities
  - ✓ There is no conflict or confusion of workers
  - ✓ Team work is enhanced
  - ✓ Ensures proper control which in turn promotes efficiency

**NB:** A poor business structure is likely to lead to the failure of the business

#### 2. The human resource environment

- ✓ The human resource environment refers to the employees or workers in an organization. The success or failure of a business can be determined by the type of workers the business

The human resource in a business can be **strength** [lead to success] if:



- a) If the organization hires qualified and experienced workers
  - b) If the organization has adequate number of workers
  - c) If the organization pay the workers well and in good time as it will make them motivated in their work
  - d) If the workers are matched with the correct job activities
  - e) If the workers are continuously trained to equip them abreast with the changing technology.
- Lack of the above is a weakness to the business and may lead to its failure.

### 3. Financial resource

This refers to the money needed to fund the various activities in the business. The financial resource in a business can be strength if:

- a. The business has enough fiancés
  - b. If there is proper financial management to ensure that there is no wastage.
- ✓ Lack of adequate funds and poor financial management will lead to the failure of the business.

### 3. Production environment/resources

This refers to the resources and technology employed by the business in the production of goods and services. If the business uses modern technology and machines in the production of goods and provision of services, then this will lead to production of quality goods, mass production and at low cost which will lead to the success of the business.

- ✓ Use of poor technology in production leads to poor quality products, low demand and subsequent failure of the business

### 4. Business culture

This is a combination of employees believes, expectations and values within the businesses. A business that has a culture of involving employees in decision making is likely to succeed than one which does not. This is because they own up what they do.

### 5. The owners

The owners of the business provide finances needed to start and run a business and also make decisions concerning the operations of the business.

If the owners provide adequate finances and make appropriate decisions, this may lead to the success of the business while poor decisions may lead to the failure of the business.



## **External business environment**

- ✓ These are factors from outside the business that influence the operations of the business.
- ✓ The external environment is also called macro-environment or uncontrollable environment. It is known as uncontrollable environment because the management cannot control it but can only change/adapt to the changing environment.
- ✓ Macro-environment presents opportunities or threats to the business. Opportunities are conditions which lead to the success of the business while threats are conditions that may lead to the failure of the business.
- ✓ Macro-environment consists of the following factors:

### **1. Economic environment**

- ✓ These are factors that influence the buyer's willingness and ability to buy goods and services. These include consumers' incomes, taxes rates, prices of commodities etc.
- ✓ The economic environment can be an opportunity to the business if :
  - 1) The prices of commodities are low
  - 2) If the consumers incomes are high
  - 3) If the taxes levied on goods are low as it will make prices of commodities to fall
  - 4) If banks charge low interest rates on loans, it encourages people to borrow loans and buy more goods
  - 5) If there is low levels of inflation

The business can fail if consumers incomes are low, prices of goods are high, tax rates are high, bank interest rates are high, and high levels of inflation

### **2. Demographic environment**

- ✓ This refers to population changes
- ✓ Population changes may include population size, distribution, age, sex, birth rates and death rates.
- ✓ A growing population creates a wider market for goods and services; this will lead to the success of the business while a declining population may lead to the failure of the business.



#### 4. Legal-political environment

- ✓ This refers to the laws and policies enacted by the government to regulate of business activities.
- ✓ If the government passes **favorable** policies towards a business, for example **low taxation rates, gives subsidies** etc. the business is likely to succeed because this will make prices of goods of that firm to be low hence high demand of its goods, compared to a situation whereby the government charges high taxes and withdraws subsidies.
- ✓ political stability in a country is an opportunity as it creates a conducive environment for a business to thrive but political instability may lead to business failure

#### 5. Technological environment.

- ✓ Technology refers to levels of know-how, efficient use of tools and equipment in production activities. Advancement in technology will lead to better quality goods and services.
- ✓ A business that uses modern technology in production will produce better quality goods and at lower prices. This will attract more customers leading to its success, compared to a business that uses outdated technology as this will lead to poor quality goods, low demand and collapse of the business.

#### 6. Cultural environment

- ✓ Culture refers to norms that regulate behaviour of people in the society. It includes customs, values, religion and believes that are shared by a given community.
- ✓ Culture dictates what goods and services people will consume. For example Muslims don't consume pork and therefore a pork selling business in a muslim community will fail.
- ✓ A business person should therefore produce goods and services which are in line with the cultural beliefs of the customers you are serving, otherwise you will fail.

#### 7. Competitive environment

- ✓ This is an environment whereby firms are trying to outdo one another in their efforts to maximize profits.
- ✓ There two types of competitive environment, these are:
  - a. **Generic competition** – this refers to competition where products are used for the same purpose though the products are different e.g. discos and cinemas



b. **Enterprise competition** – this is a kind of competition whereby a firm's products are similar to those of other firms.

✓ Competition may lead to the collapse of a business if it cannot cope.

### 8. Physical environment

Physical environment includes factors like: relief, climate infrastructure like water supply electricity etc. favorable climate will lead to success of agro based businesses while drought may lead to poor performance as well as collapse of the business.

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