Business and its environment (A Level)

External influences on business (economic, political, social, technological, environmental and legal factors, competition, globalisation) and business strategy: corporate objectives, SWOT, Ansoff, Porter, decision trees, stakeholder analysis and corporate social responsibility.

6.1 External influences on business activity

Businesses cannot control the **external environment**, but they must **respond** to it. A **PESTLE** analysis groups the influences.

Factor	Examples of influences
Political	government **stability**, policies, **subsidies**, **trade agreements**
Economic	**growth, unemployment, inflation, interest rates, exchange rates, tax**
Social	**demographics** (ageing population), **tastes and lifestyles**, attitudes to work, **ethics**
Technological	**automation, the internet, e-commerce**, AI, new products and processes
Legal	**competition law**, employment, **health and safety**, consumer protection
Environmental	**climate change**, regulations on emissions, **sustainability** and consumer concern

Economic influences

- **Economic growth** raises demand, especially for **luxury goods** (high income elasticity); a **recession** cuts demand and profit, hitting **cyclical** industries hardest.
- **Inflation** raises **costs** and may cut **real** incomes.
- **Interest rates:** higher rates raise **loan costs** and reduce **consumer spending**, but can raise income for savers.
- **Exchange rates:** a **stronger** currency makes **imports cheaper** and **exports dearer**; a **weaker** currency does the reverse.
- **Unemployment:** higher unemployment lowers demand but makes **recruitment easier** and may cut wage pressure.
- **Taxation and government spending:** corporation tax affects **profit**; VAT and income tax affect **demand**.

Note Academy

Legal and political influences

Laws on **contracts, employment, competition (preventing monopolies and cartels), advertising, safety** and **environment** raise **compliance costs** but protect stakeholders. **Political change** (new governments, tariffs, sanctions) creates **opportunities and uncertainty** and may affect **foreign** operations.

Privatisation, nationalisation and government help

	Advantages	Disadvantages
Privatisation	**profit motive** raises efficiency, more **competition**, **revenue** for the government	risk of a **private monopoly**, **loss of control** of strategic industries, unprofitable services dropped
Nationalisation	protects **strategic industries** and **natural monopolies**, can pursue **social aims**, avoids **exploitation** of consumers, saves **failing** firms and jobs	often **less efficient**, **political interference**, **losses** that taxpayers fund, **less innovation**

Governments **help businesses and encourage enterprise** through **grants and subsidies**, **tax breaks**, **low-interest loans**, **enterprise zones**, **advice and training**, **infrastructure** and a **stable economy**. They **constrain business** through **taxes, regulation, competition law, minimum wages, health and safety rules, planning controls** and **environmental standards**. They also act to correct **market failure** (public goods, externalities, monopoly).

Government policy and its effect on business

Policy	Examples	Effect on business
Fiscal	tax rates, government spending	**corporation tax** changes profit; **spending** creates demand for suppliers; higher income tax cuts consumer demand
Monetary	interest rates, money supply	**higher rates** raise loan costs and cut spending; **lower rates** encourage borrowing and investment
Supply-side	education, deregulation, competition policy	**more skilled labour**, lower costs, but sometimes **more competition**
Exchange rate	currency intervention, a stronger or weaker currency	affects **export prices**, **import costs** and **profit on foreign sales**

Macroeconomic objectives (low unemployment, low inflation, growth) **shape the business climate**: **growth** raises demand, **low inflation** helps planning, but **austerity** or **recession** reduces sales and

Note Academy

investment.

Technological, environmental and social influences

Technology lowers costs, opens **new markets** (online), speeds **communication** and creates **competition** from new rivals, but needs **investment** and **retraining**. **Environmental** pressures drive **recycling**, **renewable energy** and **sustainable sourcing**; some firms gain a **competitive edge** from a **green image**. **Social change** (ageing populations, healthier lifestyles) shifts **demand**.

Competition and market power

Competitive pressures come from **rival firms**, **new entrants** and **substitutes**. Firms compete on **price, quality, service and innovation**. A highly **concentrated** market (few firms) allows more **price-setting power**; many firms means **price-taking**.

Globalisation and multinationals

Globalisation is the **increasing integration of world markets**. **Multinational companies (MNCs)** operate in **more than one country**.

Benefits to businesses	Risks and costs
larger markets, **economies of scale**, **cheaper labour or materials**, **spread of risk**	**exchange-rate risk**, **cultural differences**, **political instability**, **tariffs and regulation**, **more competition**, **bad publicity** over labour or environmental standards

Impact on host countries includes **jobs and investment** but also **profit leaving the country** and effects on **local firms**. Companies consider **cultural** differences in **marketing** and **business practices**.

> **TRY IT**
>
> Interest rates rise. Name two ways this might affect a business that sells expensive cars on credit.
>
> **Higher borrowing costs** cut customers' ability to afford credit, so **demand falls**. The business's own **loan interest** also increases.

CSR, community, trade links and the environment

CSR issues include **honest accounting practices**, **refusing bribes or paying incentives to win contracts**, **fair treatment of suppliers and workers**, and **social auditing** (an independent review of the firm's social impact and ethical behaviour). Businesses must consider **the community and pressure**

Note Academy

groups (campaigners for environmental or consumer causes) because **protests, boycotts and publicity** can damage sales and reputation, while good relations bring **goodwill**.

International trade links give **bigger markets, cheaper inputs and economies of scale**, but expose firms to **exchange-rate risk and foreign competition**. **Trade agreements** (free trade areas, customs unions) **reduce tariffs** and open markets, helping **exporters** but increasing **import competition**; **technology** (e-commerce, digital payments, tracking) makes **international trade easier and cheaper**. **Multinationals** bring **jobs, investment and technology** to a country, but may take **profits abroad**, **squeeze local firms** and cause **environmental or labour concerns**; **governments** and multinationals bargain over **tax, jobs and regulation**.

Physical environment issues (climate change, pollution, resource shortages, floods) can **raise costs**, **disrupt supply** and **change demand**. An **environmental audit** reviews a business's **impact on the environment** (waste, energy, emissions); stakeholders use it to **judge performance** and the business uses it to **cut costs and improve its image**. **Sustainability** is growing in importance: consumers and investors **favour green firms**, and laws are **tightening**, so decisions on materials, energy and location must **account for sustainability**.

6.2 Business strategy

A **strategy** is a **long-term plan to achieve objectives**, usually in a changing environment. **Corporate objectives** (the overall aims) lead to **corporate strategy**, then **functional strategies** in marketing, operations, HR and finance.

Strategic analysis

SWOT analysis lists **internal strengths and weaknesses** and **external opportunities and threats**, helping to build on strengths, fix weaknesses, take opportunities and avoid threats. Its limits: it is **descriptive**, **subjective** and **static**.

Porter's Five Forces assess **industry attractiveness**: **threat of new entrants**, **bargaining power of suppliers**, **bargaining power of buyers**, **threat of substitutes**, and **rivalry** between existing firms.

Porter's generic strategies:

Strategy	Meaning
Cost leadership	be the **lowest-cost** producer and price low
Differentiation	offer **unique** features, quality or brand at a **premium**
Focus	target a **narrow segment** with either of the above

Note Academy

Ansoff's matrix

	Existing products	New products
Existing markets	**market penetration** (lowest risk)	**product development**
New markets	**market development**	**diversification** (highest risk)

Decision-making tools

Decision trees map out **choices and uncertain outcomes**, with **probabilities** and **financial values**, to find the **expected value** of each option.

> **Expected value = sum of (probability × outcome). An option gives a 60% chance of $50,000 profit and a 40% chance of a $10,000 loss: EV = 0.6 × 50,000 + 0.4 × (−10,000) = 30,000 − 4,000 = $26,000. Compare with the cost of the option, and consider risk.**

Limits of decision trees: **probabilities are estimates**, they **ignore non-financial factors** and the **attitude to risk**.

Critical path analysis and other planning tools appear in the operations chapter.

Stakeholder analysis and corporate social responsibility

A **stakeholder map** (power versus interest) shows which groups to **manage closely** (high power, high interest), **keep satisfied**, **keep informed** or **monitor**. **Corporate social responsibility (CSR)** is a business's **commitment to act ethically and to consider the social and environmental impact** of its decisions. Benefits: **reputation**, **customer loyalty**, **recruitment**, avoiding **bad publicity** or regulation. Costs: **higher costs** and possible **lower short-term profit**. Some CSR is **real**; some is **greenwashing** (appearing ethical without substance).

Strategic management

Strategic management has three stages: **strategic analysis** (where are we now? use SWOT, PEST/PESTLE, Porter's forces, core competences), **strategic choice** (where do we want to go and how? Ansoff, decision trees, blue ocean) and **strategic implementation** (putting the plan into action through **resources, structure, people and control**). **Corporate planning** turns **objectives** into strategies and **plans with targets**, and is reviewed as conditions change. Benefits: **direction, co-ordination and focus**. Limits: **time and cost**, a plan can become **out of date**, and it may **reduce flexibility**.

Note Academy

More strategy tools

- **Blue ocean strategy:** instead of fighting rivals in a crowded market (a **red ocean**), a business creates a **new, uncontested market space**, making the competition **irrelevant** by offering **new value** (for example a new type of product) at a low cost. Risk: the new market may not **develop**.
- **Scenario planning:** a business imagines **several possible futures** (for example best case, worst case and most likely) and plans how it would respond to each, so it is **prepared for change**.
- **Core competence framework (Prahalad and Hamel):** a **core competence** is something a business does **especially well** that is **valuable, hard to copy and can be used across many products or markets**. Strategy builds on these **strengths** (for example a retailer's logistics skill).
- **Force field analysis (Lewin):** lists the **driving forces** for a change and the **restraining forces** against it, with a **weight** for each. A change is likely to succeed if the **driving forces outweigh** the restraining ones; managers can **strengthen drivers or weaken restrainers**.

Corporate culture, leadership and strategic change

- **Corporate culture** is the **shared values, beliefs and ways of working** in a firm (for example **power, role, task and person** cultures). A culture that **fits the strategy** helps decisions and morale; a **mismatch** (for example a cautious culture with an innovation strategy) can **block success**.
- **Transformational leadership** is **inspiring** people with a **vision** and **motivating** them to go beyond self-interest; it is valuable when **leading strategic change** (compare **transactional** leadership, based on rewards and rules).
- **Managing strategic change: communicate the vision**, **involve** staff, give **training**, plan in **stages**, build **early wins** and **monitor** results; use **force field analysis** to deal with resistance.
- **Contingency planning and crisis management:** a **contingency plan** sets out **what to do if something goes wrong** (supply failure, product recall, IT breakdown), naming **responsibilities, communications** and **back-up resources**. In a **crisis**, a **crisis management team** acts quickly, communicates **honestly** with stakeholders and protects the **reputation**. Planning costs **time and money** but reduces **damage** if a crisis happens.

Strategic choices and success

A strategy's success depends on **fit** with **resources**, **market conditions**, **competition** and the **stakeholders' reaction**. Strategies are **reviewed** and changed as the environment changes (**emergent** versus **planned** strategy).

Note Academy