Business Management

Understanding Business

1.2 - Influences on Business Activity

H

N5

Learner's Notes

Introduction

In this topic you will find out about the following things.

Stakeholders

- *INTEREST AND INFLUENCE OF*
  - *Owners*
  - *Managers*
  - *Employees*
  - *Government*
  - *Banks*
  - *Customers*
  - *Suppliers*
  - *Society*
- *STAKEHOLDER CONFLICT ^{H}*
- *STAKEHOLDER INTERDEPENDENCE ^{H}*

Internal factors

- *FINANCE*
- *EQUIPMENT*
- *HUMAN RESOURCES*
- *MANAGEMENT ^{H}*
  - *Role of the Manager ^{H}*
  - *Types of Decision ^{H}*
  - *Quality of Decision Making ^{H}*
  - *SWOT Analysis ^{H}*
- *CORPORATE CULTURE ^{H}*

External factors

- *POLITICAL*
  - *Legislation*
  - *Economic Policy ^{H}*
  - *Competition Policy ^{H}*
- *ENVIRONMENTAL*
- *SOCIAL*
- *TECHNOLOGICAL*
- *ECONOMIC*
- *COMPETITIVE*

^{N5} *– N5 ONLY*

^{H} *– HIGHER ONLY*

WHAT INFLUENCES BUSINESS ACTIVITIES?

DECISIONS are choices that have to be made about what to do when you are faced with several different options and cannot do them all. For example, if you only had enough money for either a Snickers or a Mars bar, you would have to make a decision about which one to buy as you cannot have both.

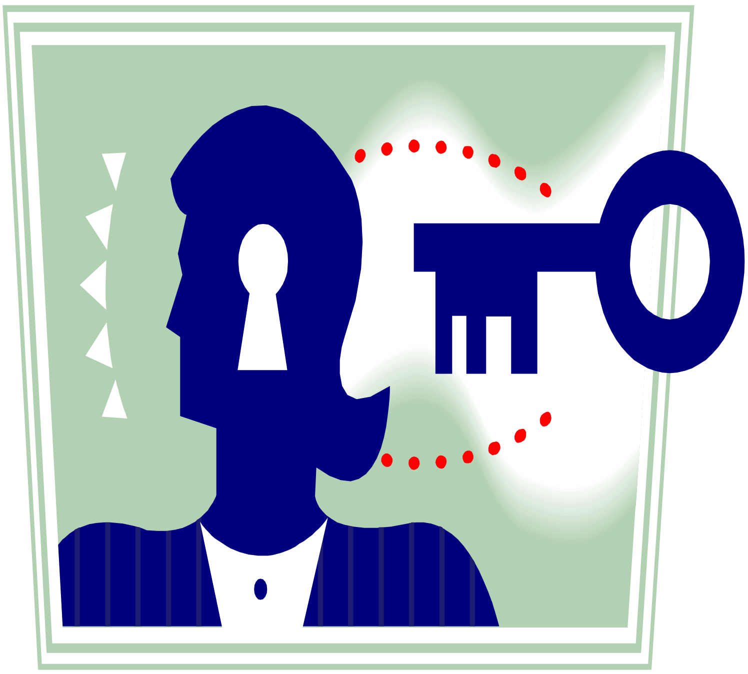
Businesses have to make decisions about the following issues so that they can continue and succeed.

- *HOW TO SATISFY THE NEEDS AND UNLIMITED WANTS OF CONSUMERS*
- *HOW TO PRODUCE THEIR GOODS AND SERVICES*
- *HOW TO MAXIMISE BENEFITS AND MINIMISE EXTERNALITIES*
- *HOW BIG THE BUSINESS WILL BE*
- *WHICH BUSINESS TYPE THEY WILL BE IN THEIR ECONOMIC SECTOR*
- *WHICH OBJECTIVES THEY WILL PURSUE*
- *WHICH INDUSTRIAL SECTOR THEY WILL OPERATE IN*
- *WHICH STAFF GROUPINGS AND MANAGEMENT STRUCTURES THEY WILL USE*

The **KEY** (main) factors which can create the need to make such decisions and also influence their results are:

- *INTERNAL STAKEHOLDERS*
- *EXTERNAL STAKEHOLDERS*
- *INTERNAL ENVIRONMENTAL FACTORS*
- *EXTERNAL ENVIRONMENTAL FACTORS*

This process of making decisions that will help a business progress in response to key factors is what **BUSINESS MANAGEMENT** actually is.



INTERNAL STAKEHOLDERS

> ***INTERNAL STAKEHOLDERS** are people **INSIDE OF A BUSINESS** who are interested in influencing its' activities because they affect them in some way.*

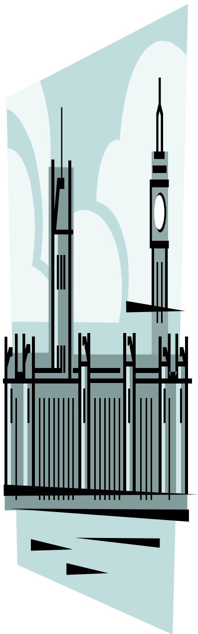
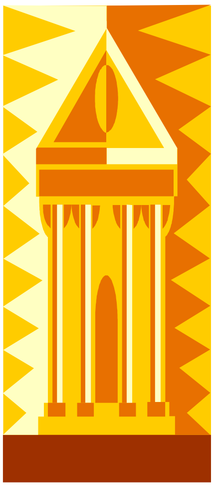
The main internal stakeholders who are interested in influencing business activity can be seen below.

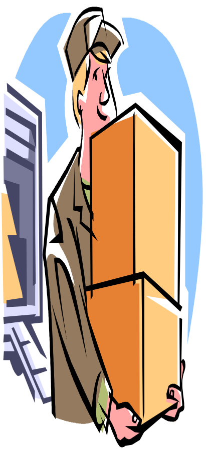
Internal Stakeholder	Stakeholder Interest?	Stakeholder Influence?
OWNERS 	The owners of an organisation are interested in making sure that it **ACHIEVES THE OBJECTIVE** that they set it up for.	• Owners influence the activities of a business by being able to **MAKE DECISIONS** that managers and staff have to work to achieve. • Owners have a **HIGH** level of influence because no one else in the business has the authority to overrule their decisions.
MANAGER 	The managers of a business are interested in making it successful so that they can **KEEP THEIR JOBS** and maybe get **BETTER CONDITIONS** (eg wages).	• Managers influence the activities of a business by **MAKING DECISIONS** to help it achieve the objectives the owners have set. • The level of influence of a manager **VARIES** with their level of **AUTHORITY**. For example, top managers can overrule decisions of managers below them in the organisation.
STAFF 	The workers of a business are interested in helping to make it successful so that they can **KEEP THEIR JOBS** and maybe get **BETTER CONDITIONS** (eg wages).	• Staff can positively influence the activities of a business by **WORKING HARD** to support the decisions of owners and managers in • Staff can negatively influence the activities of a business by **INDUSTRIAL ACTION** (such as a **STRIKE**). • The level of influence of staff **VARIES** with **NUMBER** of them involved in an action. For example, all staff having a strike will have more impact than only one worker.

EXTERNAL STAKEHOLDERS

***EXTERNAL STAKEHOLDERS** are people **OUTSIDE OF A BUSINESS** who are interested in influencing its' activities because they affect them in some way.*

The main external stakeholders who are interested in influencing business activity can be seen below.

External Stakeholder	Stakeholder Interest?	Stakeholder Influence?
GOVERNMENT 	Government wants to make sure that businesses are paying all of their **TAXES** and that they are following all relevant **LAWS** and **POLICIES**.	• Government influence the activities of a business by **MAKING LAWS** which change the way that they have to operate. • Government influence the activities of a business through **POLICIES** and **EXECUTIVE AGENCIES** which change the way they have to operate. • Government influence the activities of a business by changing **TAX RATES** which will affect the amount of money that it has. • Government has a **HIGH** level of influence because businesses will end up in court facing penalties if they do not do as they are told in laws, etc.
BANKS 	Banks want to make sure that businesses are **BORROWING** from them (so that they can make money from **INTEREST**). They will also want to make sure that businesses can keep up with **REPAYMENTS** so that they do not lose money.	• Banks positively influence the activities of a business by **LENDING** enough money at reasonable **RATES OF INTEREST** to allow them to do things that will increase consumer satisfaction. • Banks negatively influence the activities of a business by **NOT LENDING** enough money or charging high **RATES OF INTEREST**. • The level of influence of a bank **VARIES** with the **AMOUNT OF MONEY** they are lending because small loans are likely to have little impact.

External Stakeholder	Stakeholder Interest?	Stakeholder Influence?
CUSTOMERS 	Customers want businesses to continue to provide (new) goods and services that will **SATISFY THEIR NEEDS AND WANTS**.	• Customers can positively influence the ability of a business to achieve its' objectives by **USING MORE OF THEIR GOODS AND SERVICES**. • Customers can negatively influence the ability of a business to achieve its' objectives by **NOT USING THEIR GOODS AND SERVICES**. • The level of influence that a customer has **VARIES** with the amount that they are **SPENDING**.
SUPPLIERS 	Suppliers want to make sure that businesses are **BUYING** from them. They will also want to make sure that businesses can keep up with **REPAYMENTS** for things that they have bought but not yet paid for.	• Suppliers positively influence the activities of a business by **PROVIDING** the **RESOURCES** they need for production. • Suppliers negatively influence the activities of a business by **NOT PROVIDING** the **RESOURCES** they need for production. • The level of influence of a supplier **VARIES** with the **AMOUNT OF PRODUCTS** that they are supplying.
SOCIETY 	Society is all of the people around a business – they are not necessarily customers. Society will want businesses to minimise their costs by **PREVENTING EXTERNALITIES** and be **SOCIALLY RESPONSIBLE**.	• Society can positively influence the activities of a business by supporting them though the work of **PRESSURE GROUPS** and in the **MEDIA**. • Society can negatively influence the activities of a business by campaigning against them as **PRESSURE GROUPS** and in the **MEDIA**. • The level of influence of society **VARIES** with the **AMOUNT OF PEOPLE** that make up the pressure group or use the media.

STAKEHOLDER CONFLICT AND INTERDEPENDENCE

Stakeholders do not always have the same interests. This can mean that there can be **STAKEHOLDER CONFLICT**. This is when stakeholders with different interests disagree about what the business should do. When there is stakeholder conflict, the stakeholder with the most influence at that time will usually get their way.

For example, even though managers need their workers to do a good job, they may come into conflict with them about increasing wages. This could happen because managers may want to keep profits rather than use them to raise workers wages. In this situation, the managers could win the conflict and keep the profits as they have the most power through their authority to make such a decision.

Other examples about stakeholder conflict can be seen below.

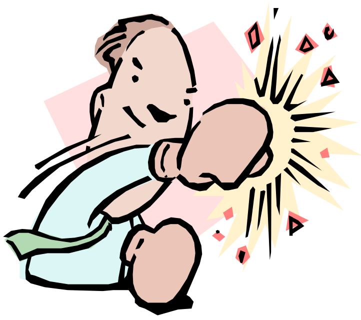
- *OWNERS MAY BE IN CONFLICT WITH MANAGERS ABOUT MANAGERIAL OBJECTIVES*
- *STAFF MAY BE IN CONFLICT WITH OWERS/MANAGERS ABOUT IMPROVING WORKING CONDITIONS*
- *THE GOVERNMENT MAY BE IN CONFLICT WITH OWNERS ABOUT LEGISLATION COMPLIANCE*
- *SOCIETY MAY WANT OWNERS/MANAGERS TO PURSUE CORPORATE SOCIAL RESPONSIBILITY*
- *CUSTOMERS MAY WANT OWNERS/MANAGERS TO LOWER PRICES AND INCREASE PROFIT*

However, when there is conflict, stakeholders should make an effort to solve the problem in a way that most of them agree with. This should be the case because all of the stakeholders are **INTERDEPENDENT** (ie they all rely on each other for the success of the same business). Therefore, if one stakeholder forces through "bad" decisions, then the whole business and all stakeholders could suffer as a result.

For example, if managers decided to keep all profits then workers may strike which would lower output and mean that the business would not have enough money to survive. If this was the case then due to interdependence all stakeholders would lose out - both managers and staff would lose their jobs, the Government would not get as much tax, customers couldn't buy products, etc.

Therefore to minimise and resolve conflicts which would have a negative impact on interdependent stakeholders, businesses will usually carry out the following activities.

- *CONSULTATION (stakeholders discuss their different opinions before taking action)*
- *NEGOTIATION (stakeholders try to compromise and get an agreement on an action will suit them all)*
- *ARBITRATION (stakeholders listen to an outside party's advice about what would be the best action)*



INTERNAL ENVIRONMENTAL FACTORS

> ***INTERNAL ENVIRONMENTAL FACTORS*** *are things* ***INSIDE OF A BUSINESS***
> *that affect the way that it operates.*

The main internal environmental factors which influence business decisions are mainly to do with the resources needed for production. The main internal environmental factors can be seen below.

1 FINANCE

When a business has **LOTS** of finance (money) then it can make decisions that will help it survive by maximising consumer satisfaction and minimising externalities. Examples of these positive decisions which can be taken when plenty of finance is available can be seen below.

- *CHOOSING TO CARRY OUT MARKET RESEARCH TO HELP DESIGN APPROPRIATE PRODUCTS*
- *DECIDING TO OFFER LOW PRICES TO ENCOURAGE CONSUMERS TO BUY*
- *DECIDING TO USE EXPENSIVE AND POPULAR LOCATIONS TO SELL PRODUCTS*
- *DECIDING TO RUN PROMOTIONS TO LET CONSUMERS KNOW ABOUT PRODUCTS*
- *CHOOSING TO USE QUALITY RAW MATERIALS AND FACTORS OF PRODUCTION*
- *DECIDING TO TRAIN STAFF TO IMPROVE THEIR SKILLS*

On the other hand, if a business **DOES NOT** have lots of finance available then it will have to make the following less helpful decisions about its' activities.

- *DECIDING TO USE CHEAP AND UNPOPULAR LOCATIONS TO SELL PRODUCTS*
- *DECIDING TO RUN FEW PROMOTIONS TO LET CONSUMERS KNOW ABOUT PRODUCTS*
- *CHOOSING TO USE LOW QUALITY RAW MATERIALS AND FACTORS OF PRODUCTION*

These decisions can have a very negative affect on the success of the organisation because they can mean that it will have problems trying to maximise consumer satisfaction and continue to create wealth. This situation is negative for a business because these problems can result in **FAILURE**. This means that the organisation runs out of finance all together and so will have to close down.

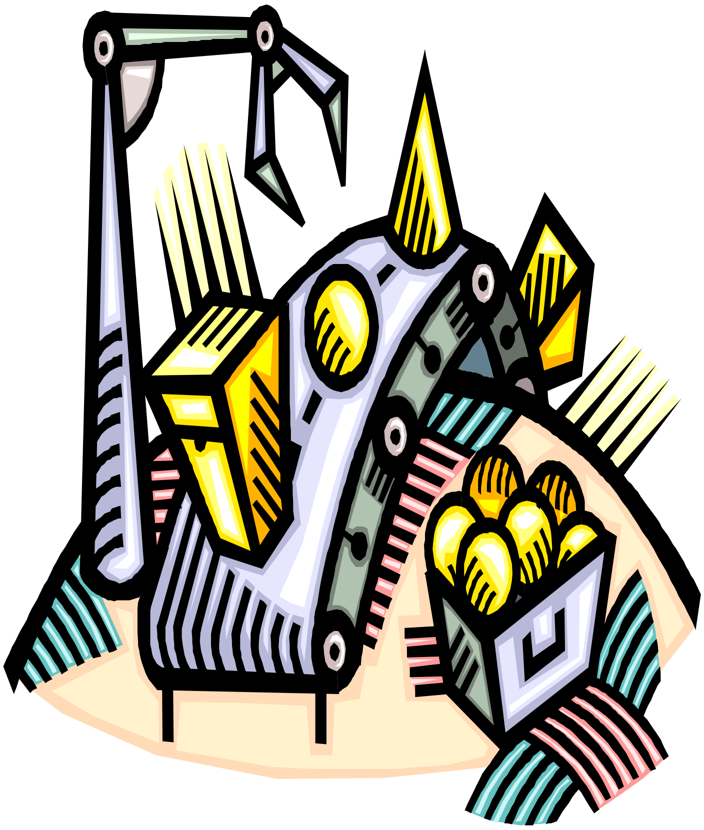
2 EQUIPMENT

Having **LOTS** of efficient equipment (capital) in a business is known as **MECHANISATION** or **CAPITALISATION**[1]. This can improve consumer satisfaction and so increase sales and loyalty in the following ways.

- *PRODUCTS WILL BE MADE TO A HIGH STANDARD BY THE MACHINERY*
- *PRODUCTS WILL BE QUICKLY FOR CONSUMERS BY THE MACHINERY*
- *COSTS CAN BE CUT BY REPLACING STAFF WITH MACHINES THAT DON'T NEED PAID*
- *MACHINERY CAN IMPROVE CONSUMER SERVICE (eg support websites)*

However, a business must be aware that the use of lots of equipment may raise the following issues.

- *MACHINERY CAN BE EXPENSIVE TO BUY WHICH MIGHT LIMIT ACCESS TO IT*
- *MACHINERY WILL HAVE MAINTENANCE COSTS*
- *MACHINERY CAN BREAK DOWN AND STOP PRODUCTION*
- *MACHINERY CANNOT BE ENTERPRISING AND COME UP WITH NEW IDEAS*
- *CONSUMERS MAY NOT LIKE USING MACHINES (eg automated help lines)*
- *STAFF MAY NOT BE HAPPY BEING REPLACED BY MACHINES AND TAKE INDUSTRIAL ACTION*



[1] When almost only capital is used this usually known as **AUTOMATION**.

3 HUMAN RESOURCES

Having **LOTS** of skilled and committed human resources (aka labour or staff) in a business will maximise consumer satisfaction and sales through the following activities.

- *STAFF WILL WORK TO A HIGH STANDARD AND PRODUCE HIGH QUALITY PRODUCTS*
- *STAFF WILL WORK QUICKLY AND MAKE PRODUCTS IN TIME FOR CONSUMERS*
- *STAFF WILL BE FLEXIBLE AND SO HELP TO PRODUCE LOTS OF TYPES OF PRODUCT*
- *STAFF WILL TREAT CONSUMERS WELL AND OFFER HIGH LEVELS OF CONSUMER SATISFACTION*

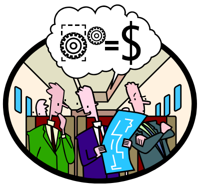
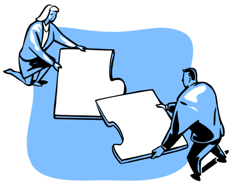
On the other hand, if a business does not have a skilled and committed labour force then the opposite of the above will be true.

In addition, if the labour force becomes unhappy with decisions made about their treatment in the organisation then they may take action which negatively affects it by reducing production and lowering consumer satisfaction and loyalty. This will mean falling sales and profits which can increase the chance of failure. These actions are known as **INDUSTRIAL ACTION**. Examples of industrial action include the following.

- *STRIKE (this means staff refuse to come to work at all and production goes down)*
- *WORK TO RULE (this means they only do what their contract says)*
- *PICKETING (employees trying to persuade others to join their strike)*
- *GO SLOW (staff do their job a slowly as the can get away with to lower production)*

4 MANAGEMENT

MANAGERS are a group of staff in a business who have the **AUTHORITY** (ability) and **RESPONSIBILITY** (need to answer for) for following activities or roles.

Role	Description
PLANNING 	Planning is all about **MAKING DECISIONS** about what should happen in order to help the business achieve its' aims.
ORGANISING 	Organising is all about making sure the business has the **RESOURCES** that it needs to carry out its' activities and so achieve its' aims.
COMMANDING 	Commanding is all about **TELLING OTHER STAFF** about what has to be done so that the business can carry out its' activities and so achieve its' aims.
COORDINATING 	Coordinating is all about making sure that the resources of the business **WORK WELL TOGETHER** and are in the right place at the right time so that activities are carried out properly.
CONTROLLING 	Controlling is all about **CHECKING THE PERFORMANCE** of staff and resources and changing activities if any problems are identified.

These traditional functions or roles of the manager came from Frenchman Henri Fayol in 1916.

In the 1970s, Henry Mintzberg expanded on Fayol's ideas by identifying the following 10 roles that managers fulfil within businesses that can be divided into the following 3 categories.

- *DECISIONAL ROLE* — Making decisions about what the business should do as entrepreneur, disturbance handler, resource allocator and negotiator.
- *INTERPERSONAL ROLE* — Relationships with others as figurehead, leader and liaison.
- *INFORMATIONAL ROLE* — Managing information as monitor, disseminator and spokesperson.

He argued that everything managers do within these roles will influence a business. The level of influence that these management actions will have on a business will depend on a number of factors including those shown below.

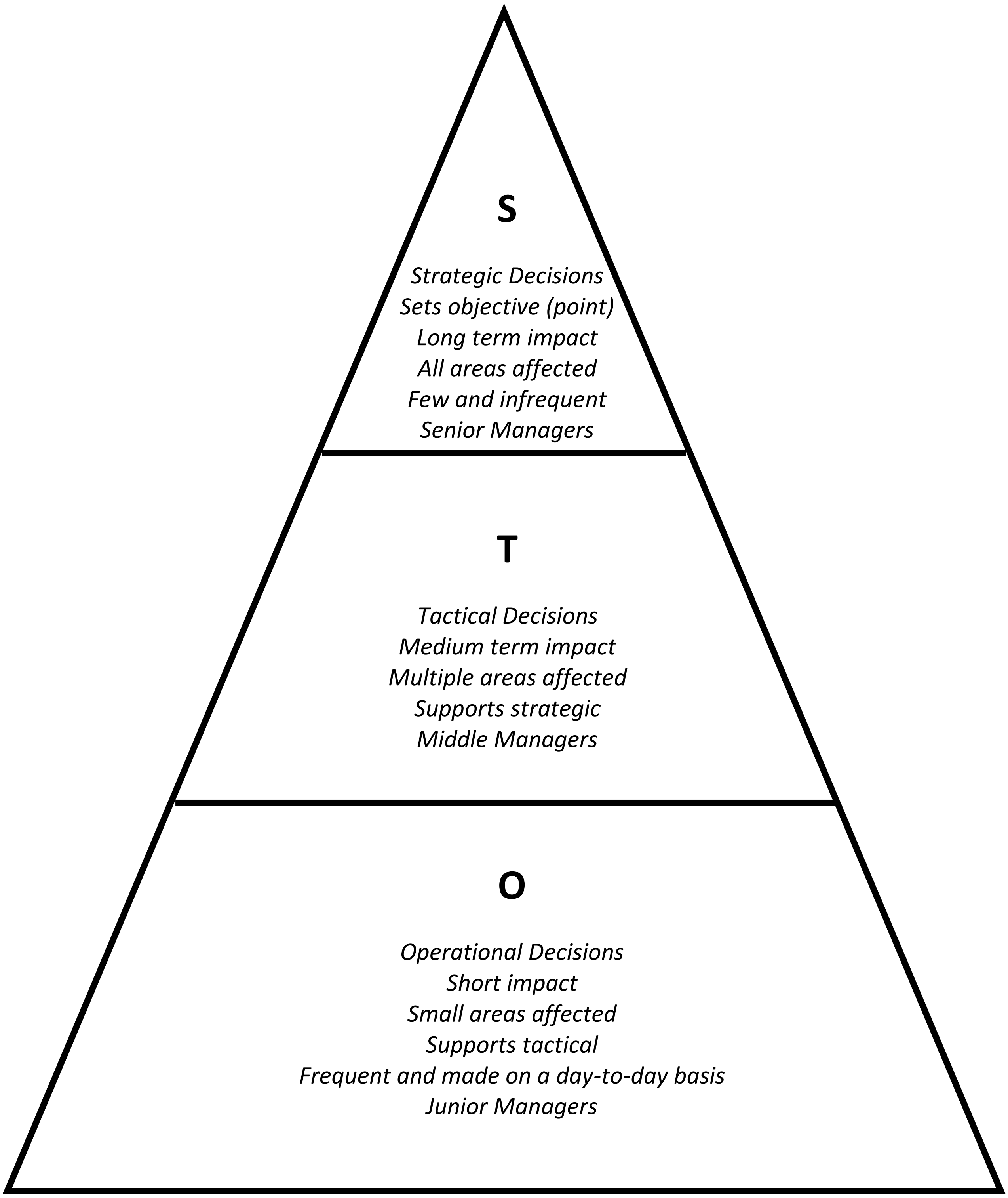
a TYPE OF DECISION MADE

Decisions made within businesses will differ in terms of their impact and importance. The 3 main types of business decision and their level of influence on activities can be seen below.

Decision Type	Description
STRATEGIC DECISION 	• Sets out the overall **OBJECTIVE** of the business. • Influences **ALL AREAS** of the business. • Impact lasts a **LONG PERIOD OF TIME**. • Only a **FEW** of these decisions are made. • These decisions are made **INFREQUENTLY**. • Usually made by the **SENIOR MANAGEMENT**. • For example, growth, profit maximisation, improve image, etc.
TACTICAL DECISION 	• Action based decision about how to achieve strategic **OBJECTIVE**. • Concerned with the use of **PARTICULAR RESOURCES**. • Usually influences **SEVERAL AREAS** of the business. • Impact lasts a **MEDIUM PERIOD OF TIME**. • These decisions are made **QUITE FREQUENTLY**. • Usually made by the **MIDDLE MANAGEMENT**. • For example, choosing to use employ new staff or open new branches to allow growth.
OPERATIONAL DECISION 	• Concerned with low level **DAY TO DAY** choices. • Affect only **SMALL AREAS** of the business. • Impact lasts a **SHORT PERIOD OF TIME**. • These decisions are made **VERY FREQUENTLY**. • Usually made by the **JUNIOR MANAGEMENT**. • For example, choosing the cheapest way to contact a customer.

All of these different types of decisions that managers make should support each other. This is to make sure that all of the decisions made in a business move it towards the achievement of its' objectives. For example, if strategically profit has been set as the objective of the business, then tactical and operational decisions must try to be profitable or the strategic objective will not be achieved.

The different types of decision and the managers who make them can be remembered through the following pyramid diagram which illustrates their number, supportive nature and importance.



b *QUALITY OF DECISION MADE*

No matter the type of decision being made, managers will want to make HIGH QUALITY DECISIONS that help the business to achieve its objectives. However, this is not always easy for managers because there are usually CONSTRAINTS about what they are able to decide to do which in turn affect the quality of the final decision made. Examples of these decision making constraints can be seen below.

- *SHORTAGE OF RESOURCES (ie ICT, time, money, sources of info, etc)*
- *EXISTING POLICIES WHICH PREVENT CERTAIN CHOICES (eg budget limitations)*
- *THE QUALITY OF INTERNAL INFORMATION AVAILABLE AND USED*
- *THE QUANTITY OF INTERNAL INFORMATION AVAILABLE AND USED*
- *DECISION MAKER NOT BEING WILLING TO TAKE RISKS*
- *DECISION MAKER NOT HAVING ENOUGH EXPERTISE TO MAKE GOOD DECISIONS*
- *DECISION MAKER PURSUING OWN INTERESTS (eg deciding to award themselves rises)*
- *GOVERNMENT LEGISLATION*
- *ECONOMIC ENVIRONMENT*
- *CHANGES IN SOCIAL EXPECTATIONS (eg unacceptable option of animal testing)*
- *TECHNOLOGICAL LIMITATIONS AND CHANGES*

Therefore, in order to minimise the impact of limiting factors, managers can use the following to improve the quality of their decisions.

- *USE OF ICT*

  Use of ICT can improve decision making in the following ways.

  - Increased amount of information available.
  - Higher quality of information available.
  - Faster provision of information.

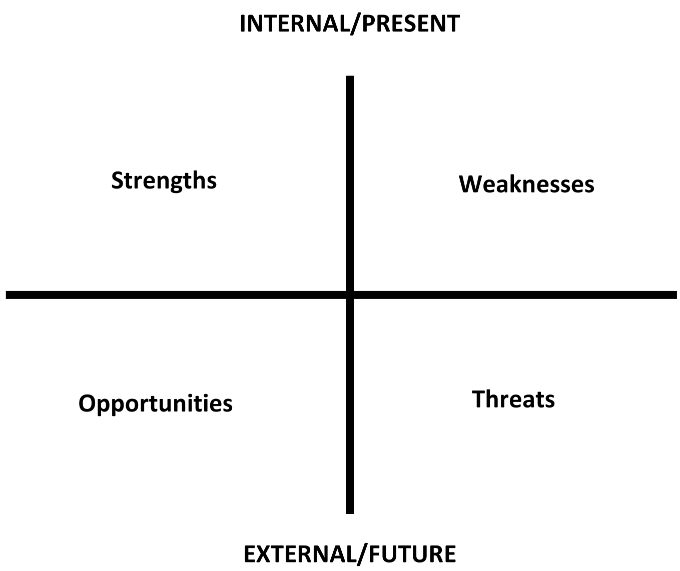
- *SWOT ANALYSIS*

  SWOT Analysis organises all of the good quality information that a business has by placing it into the following groups.

  - *STRENGTHS (positive things about what the business is already doing)*
  - *WEAKNESSES (negative things about what the business is already doing)*
  - *OPPORTUNITIES (positive things that the business could start to do)*
  - *THREATS (negative things outside of the business which could prevent success)*

  SWOT Analysis makes information easy to understand by presenting it GRAPHICALLY in groups (shown below) in order to identify:

  - *LIKELIHOOD OF POSITIVE OUTCOME (more positive than negative points)*
  - *LIKELIHOOD OF NEGATIVE OUTCOME (more negative than positive points)*
  - *CONTROL OVER OUTCOME (more internal than external points)*
  - *LACK OF CONTROL OVER OUTCOME (more external than internal points)*



  SWOT Analysis aims to help managers make "good" decisions as follows.

  - *BY ORGANISING QUALITY INFO IN A WAY THAT IS EASY TO UNDERSTAND*
  - *BY MINIMISING THE CHANCE OF INFORMATION OVERLOAD WHICH COULD CAUSE CONFUSION*
  - *BY IDENTIFYING WEAKNESSES AND THREATS TO BE DEALT WITH*
  - *BY IDENTIFYING STRENGTHS AND OPPORTUNITIES TO BE DEVELOPED*

5 CORPORATE CULTURE

Corporate culture is term that describes a set of beliefs and activities which create **NORMS** (ways "things are done") that affect how staff think about and complete their work. These norms create a specific sense of identity for the business.

Corporate culture is usually developed in a business through use of the following.

- *ARTEFACTS (physical things, eg uniform, premises design, layout, logos, etc)*
- *VALUES (principles followed by managers and workers which affect behaviour)*
- *COMMUNICATIONS (eg newsletters, meetings, etc that share and reinforce values)*

Many managers believe a corporate culture can have a **POSITIVE INFLUENCE** on the implementation of their decisions for the following reasons.

- *It creates a sense of belonging in staff which improves motivation and commitment.*
- *It improves motivation and commitment makes decisions easier to implement.*
- *It Improves motivation and commitment increases quality and sales.*
- *It develops an identity that consumers can recognise and become loyal to.*

However there is a danger that staff or consumers who do not share the values of an organisation's corporate culture can react negatively as they lack a sense of belonging and so are demotivated from engaging with the business.

Examples of different types of corporate culture include the following.

- *POWER CULTURE – a few individuals make all the key decisions for the business.*
- *ROLE CULTURE - individuals stick to performing specific jobs rather than working creatively.*
- *TASK CULTURE - teams complete particular tasks and can make creative decisions for their work.*
- *PERSON CULTURE – staff are fully allowed to make decisions for themselves.*

EXTERNAL ENVIRONMENTAL FACTORS

***EXTERNAL ENVIRONMENTAL FACTORS** are things **OUTSIDE OF A BUSINESS** that affect the way that it operates.*

The main external environmental factors which influence business decisions can be seen below.

1 POLITICAL FACTORS

Governments can affect business activities through changes in **LEGISLATION** (laws) and their **POLICIES** (plans and rules for the area they are in charge of). Examples of how this can be the case can be seen below.

a LEGISLATION

To prevent fines and criminal prosecution from the Courts, businesses have to ensure that they are aware of and are adapting their practices to follow all applicable Government legislation (**LAWS**). Examples of Government legislation which can affect businesses can be seen below.

Legislation	Description
CONSUMER PROTECTION 	Consumer protection legislation aims to ensure that business practices and activities are not unfair to consumers. Examples of this kind of legislation includes the following. • *TRADES DESCRIPTIONS ACT (protects against unfair advertising)* • *SALE OF GOODS ACT (ensures products meet quality standards)* • *WEIGHTS AND MEASURES ACT (ensures correct product amounts)* • *PRICES ACT (covers the display of prices)* • *CONSUMER CREDIT ACT (regulates credit provision)*
EMPLOYMENT 	Employment legislation aims to ensure that business practices and activities are not unfair to workers. Examples of this kind of legislation includes the following. • *MINIMUM WAGE ACT (set basic pay rates)* • *EQUALITY ACT (prevents discrimination)*
HEALTH AND SAFETY 	Health and safety legislation aims to ensure that business practices and activities are posing a safety risk to customers or staff. Examples of this kind of legislation includes the following. • *HEALTH AND SAFETY AT WORK ACT (outlines safety obligations)* • *DISPLAY SCREEN REGULATIONS (obligations for computer users)*

b *ECONOMIC POLICY*

The term economic policy refers to Government actions to influence the following within its' economy.

- **AGGREGATE DEMAND**[2] (overall level of spending and demand for products)
- **INFLATION** (the rate at which general prices are rising)
- **UNEMPLOYMENT RATES**
- **THE DISTRIBUTION OF INCOME** (how wealth can be "shared" between "rich" and "poor" people)
- **THE SIZE AND IMPORTANCE OF THE PUBLIC SECTOR**
- **THE GOVERNMENT DEFICIT** (amount of borrowed money the Government is dealing with)

Examples of economic policy actions can be seen below.

Policy	Description
FISCAL POLICY 	Fiscal policy is mainly concerned with influencing aggregate demand and addressing the Government deficit. The main ways that this is done is through managing **TAXATION, GOVERNMENT SPENDING** and **GOVERNMENT BORROWING**. The three main **STANCES** (positions) for fiscal policy and their impact can be seen below. • ***NEUTRAL FISCAL POLICY*** *– Here Government spending is fully funded by tax revenue and so Government borrowing, the deficit and the overall level of demand in the economy will not change. This means that businesses should not experience any variation in sales or profits.* • ***EXPANSIONARY FISCAL POLICY*** *– Here Government is spending is MORE THAN the amount of money brought in by tax revenue. This is likely to INCREASE Government borrowing and the deficit but should mean that overall demand in the economy should RISE (from increasing Public Sector spending and lower taxation which allows people to spend more). This means that businesses are likely to experience a RISE in sales and profits. They may also look to grow (to meet increased demand and due to more profits being available as finance).* • ***CONTRACTIONARY FISCAL POLICY*** *– Here Government is spending is LESS THAN the amount of money brought in by tax revenue. This is likely to DECREASE Government borrowing and the deficit but should mean that overall demand in the economy will FALL (from decreasing Public Sector spending and rising taxation which prevents people from spending as much). This means that businesses are likely to experience a FALL in sales and profits. They may also look to lower production (due to falling demand and a lack of finance from rising taxes).*

[2] Aggregate demand is also sometimes known as **GROSS DOMESTIC PRODUCT [GDP]**

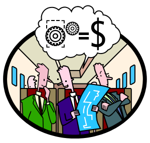
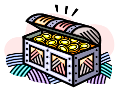
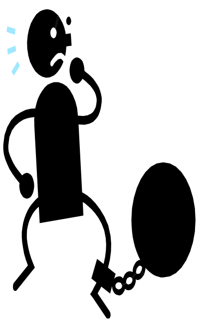
<table>
<tr><th>Policy</th><th>Description</th></tr>
<tr><td>MONETARY POLICY
</td><td>Monetary policy aims to control the supply and demand of money in an economy – usually to try to control inflation and unemployment rates. The main mechanism for doing this is through changes to the official (or BASE) INTEREST RATE at which money is borrowed and in turn repaid. In the UK, the interest rate is not directly decided by the Government but by the Bank of England.

The three main STANCES (positions) for monetary policy and their impact can be seen below.
NEUTRAL MONETARY POLICY – Here interest rates are stable which should mean that the demand for money, amount of spending and rate of inflation should remain the same. This means that businesses should not experience any variation in sales, employment rates, running costs or profits.
EXPANSIONARY MONETARY POLICY – Here interest rates begin to FALL. This should mean that the demand for money and the level of spending should RISE (as people are discouraged from saving). In response to this increased spending, inflation rates may begin to rise. In this situation business are likely to experience rising expenses and wages (from inflation) and increasing sales and profits from increased demand. Businesses may also expand at this time (as demand is rising and repaying finance is cheaper [due to low interest rates]) – this can result in a fall in unemployment.
CONTRACTIONARY MONETARY POLICY – Here interest rates begin to RISE. This should mean that the demand for money and the level of spending should FALL (as people are encouraged to save). In response to this decreased spending, inflation rates may begin to fall. In this situation business are likely to experience falling expenses and wages (from decreased inflation) and decreasing sales and profits from decreased demand. Businesses may also start to contract at this time (as demand is falling and repaying finance is more expensive [due to rising interest rates]) – this can result in a rise in unemployment.</td></tr>
</table>

c COMPETITION POLICY

When there are only a few large businesses or even just one large business in a market (a **MONOPOLY**) then they are seen to have **MARKET POWER**[3]. This means that they are so influential that they can affect market operations and prices without having to worrying about how retailers, competitors and consumers may react as they are "powerless" to do so.

Market power is not automatically a "bad" thing and many large businesses have gained it from fair and hard work which has been innovative and brought benefits to consumers. However, there is the possibility that market power could be abused and result in the following **ANTI COMPETITIVE** actions which would have a negative effect on a market by limiting competition and consumer choice.

Action	Description
COLLUSION 	Here businesses decide to work together in an anti-competitive way by agreeing to fix prices or limit the goods to be produced. This group of businesses is known as a **CARTEL**. This collusive behaviour can result in a lack of choice and high prices for consumers and excess profits for the cartel.
MONOPOLY PRICING 	When there is a monopoly**,** consumers may have to pay artificially high prices (a **MONOPOLY PRICE**) as they have no choice but to buy from the monopoly or simply go without. This can result in an unfairly high prices and excessive profit for the monopoly business.
TIE IN SALES 	Tie in sales force consumers to use certain linked products from a business. For example, a printer may only work with an expensive printer cartridge made by the business. This can result in unfair amounts of profits for the business if consumers have to pay higher than necessary prices for the "tie in" product.
PREDATORY PRICING 	Predatory pricing (aka **DESTROYER PRICING**) exists when a large business starts to sell products for less than they cost in order to force rivals out of business. Although this unprofitable in the short term is can create a monopoly and so result in excess profits from a lack of consumer choice in the long run.
VERTICAL RESTRAINTS 	An anti-competitive business may look to limit consumer choice through the following activities with the retailers in the market. o *EXCLUSIVE DEALING - This occurs when an anti-competitive business uses a legal contract to "lock" retailers into only selling their product.* o *QUANTITY DISCOUNTS – This occurs where retailers are given increasing discounts on the products of an anti-competitive business to act as an incentive to sell it instead of the products of another business.* o *REFUSAL TO SUPPLY - Here a retailer is only offered limited access or no access to the stock of an anti-competitive business.*

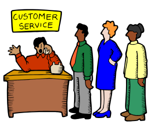
[3] In the UK, an individual business is usually seen to have market power when it has 40%+ market share.

Competition policy refers to Government actions to try to protect consumers from the previous anti-competitive activities by regulating the actions of large private sector businesses. In the UK, competition policy is enforced by the actions of the following regulators.

- *The **COMPETITION AND MARKETS AUTHORITY (CMA)** is the UK Government agency responsible for enforcing competition policy on behalf of the Department for Business, Innovation and Skills. This body replaced the Office of Fair Trading (OFT) and the Competition Commission (CC) in 2014.*

- *The **EU COMPETITION COMMISSION** oversees how competitively the businesses in the different countries of the single market are operating.*

The main things that the CMA and the EU Competition Commission do to regulate the activities of large business and so promote competitive markets can be seen below.

Activity	Description
REGULATING PRICES 	Regulators aim to ensure that big businesses do not exploit market power by charging excessive prices. They do this by monitoring pricing behaviours and the rates of profit being made to check if they are excessive. If this is the case they can take steps to get businesses to change their prices to a more reasonable level. For example, the EU Competition Commission made a ruling on the 'roaming' charges of mobile phone operators in the EU and enforced a new maximum price on such charges.
MAINTAINING STANDARDS 	Certain businesses have minimum standards of service that they must provide to their markets. For example, the Royal Mail is required by law to provide a uniform delivery service at least once a day to all postal addresses in the UK. If a businesses is found to be failing to meet these service standards then regulators can impose fines or stop the business functioning in the market by taking away its' license to operate.
OPENING UP MARKETS 	Opening up markets involves regulators taking action to remove barriers which are preventing new businesses from entering uncompetitive markets. For example, in the energy market the dominant businesses were forced to allow others to pay a fair price to use their infrastructure (ie gas pipelines, etc). This was because it was believed that forcing new businesses to pay the high costs for another version of this infrastructure themselves was wasteful and an unfair barrier. This is type of activity is also sometimes described as **MARKET LIBERALISATION**.
ANTI CARTEL ACTION 	Operating as a cartel to agree prices, to share markets, limit production or cut prices to force a weaker competitor out of the market is illegal under the Competition Act 1998 and Article 81 of the EU Treaty. Any business found to be a member of a cartel can be fined up to 10 per cent of its worldwide turnover. In addition, the Enterprise Act 2002 makes it a criminal offence for individuals to dishonestly take part in the most serious types of cartels with a maximum of five years imprisonment and/or an unlimited fine for anyone convicted.

Activity	Description
STATE AID CONTROL 	When a particular business receives **STATE AID** (this is Government assistance, eg grants, etc) then they may gain an unfair advantage over other businesses that don't get this support. Therefore, state aid is generally not allowed under competition policy. However, there are some exceptions as state aid to boost research, support regional development or help the start-up of small businesses is normally permitted. One off "bail-outs" (use of Government money to prevent the closure of a business) is also acceptable as long as the bail out is shown to be part of a recovery plan that will allow the business to function on its own again in the future.
MERGER CONTROL 	When businesses grow through a merger or takeover this can have a positive impact on a market as the new larger business can be more efficient, intensify competition and so result in the final consumer benefiting from higher-quality goods at fairer prices. However, there is the possibility that such takeovers and mergers could instead result in an anti-competitive action through collusive behaviour or the creation a monopoly. Therefore, in the UK, when a merger would result in the new large business gaining 40%+ market share then it is considered to be gaining market power and so may be investigated by the CMA. This investigation can prevent the merger going ahead (if it is deemed that it would be "against the public interest" as it would result in anti-competitive activities) or indeed a reduction in business size (usually through a sell off of part of themselves which is also known as **DIVESTMENT**). In addition, any takeover of competitors to deliberately acquire a dominant position is illegal under EU competition law.

Therefore, Government legislation and policies can result in the following **BENEFITS** for businesses.

- *FISCAL POLICY INCREASES IN GOVERNMENT SPENDING MAY RESULT IN INCREASED BUSINESS SALES*
- *FISCAL POLICY INCREASES IN GOVERNMENT SPENDING MAY RESULT IN BETTER SERVICES TO USE*
- *FISCAL POLICY TAX CUTS WILL INCREASE BUSINESS PROFITS*
- *FISCAL POLICY TAX CUTS CAN INCREASE CONSUMER SPENDING AND BUSINESS SALES*
- *MONETARY POLICY INTEREST RATE CUTS CAN MAKE FINANCING GROWTH CHEAPER*
- *MONETARY POLICY INTEREST RATE CUTS CAN INCREASE CONSUMER SPENDING AND BUSINESS SALES*
- *COMPETITION POLICY CAN PREVENT DAMAGING ANTI COMPETITIVE ACTIONS (eg vertical constraints)*
- *COMPETITION POLICY CAN OPEN UP NEW PROFITABLE MARKETS FOR BUSINESSES*
- *COMPETITION POLICY CAN PROVIDE ACCESS TO HELPFUL STATE AID*

However, these types of Government activity can also cause the following **PROBLEMS** for businesses that do not adapt to them.

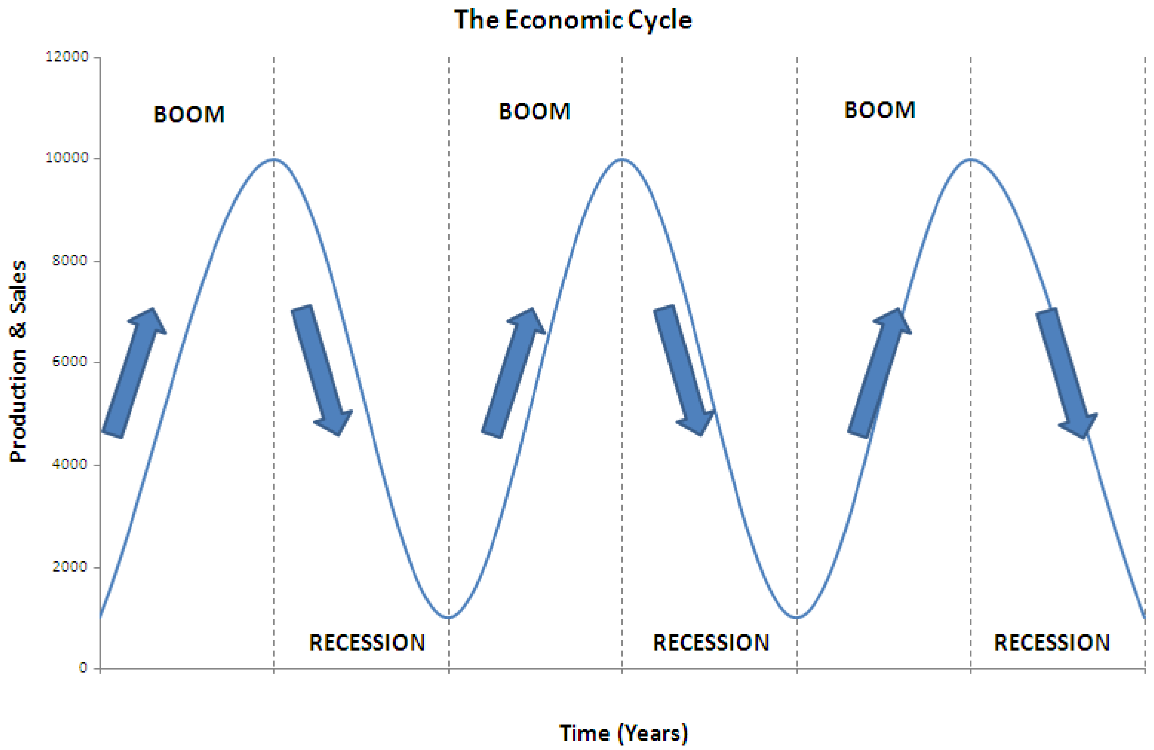
- *LEGAL ACTION FROM THE BREACH OF LEGISLATION*
- *INCREASED COSTS FROM ACTIONS TAKEN TO COMPLY WITH LEGISLATION*
- *FISCAL POLICY DECREASES IN GOVERNMENT SPENDING MAY RESULT IN FALLING BUSINESS SALES*
- *FISCAL POLICY DECREASES IN GOVERNMENT SPENDING MAY RESULT IN FEWER SERVICES TO USE*
- *FISCAL POLICY TAX RISES CAN DECREASE BUSINESS PROFITS*
- *FISCAL POLICY TAX RISES CAN DECREASE CONSUMER SPENDING AND BUSINESS SALES*
- *MONETARY POLICY INTEREST RATE RISES CAN MAKE FINANCING GROWTH MORE EXPENSIVE*
- *MONETARY POLICY INTEREST RATE RISES CAN DECREASE CONSUMER SPENDING AND BUSINESS SALES*
- *COMPETITION POLICY CAN LIMIT THE BENEFITS OF MARKET POWER*
- *COMPETITION POLICY CAN LIMIT ACCESS TO HELPFUL STATE AID*
- *COMPETITION POLICY CAN PREVENT MERGERS AND TAKEOVERS*

2 ECONOMIC FACTORS

An economy is made up of all the flows of money and products within an area. For example, a **LOCAL ECONOMY** would be made up of a town while a **NATIONAL ECONOMY** covers a whole country.

The level of activity in most modern economies varies over time. When the level of economic activity is increasing then it is known as a **BOOM**, and when it is decreasing then it is known as a **RECESSION**. These increases and decreases in the flows of money and products over time make up what is known as the **ECONOMIC CYCLE**.

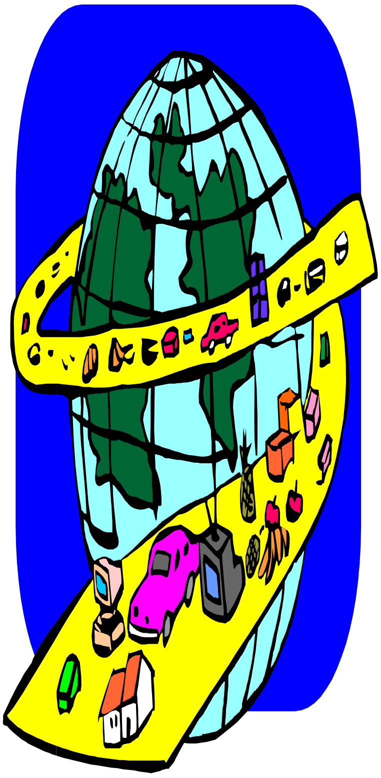
A simple economic cycle can be seen below.



Economies usually follow the economic cycle of boom and recession due to **INFLATION**. Inflation is a **GENERAL** rise in prices. Inflation creates the economic cycle as follows.

When the economy is in a **BOOM**, there is increasing INFLATION due to consumers competing to spend their money and rising costs. Eventually, costs and prices will get so high that people cannot afford to buy any more products. This decreases demand and causes production and employment to fall. This means that the level of activity and wages in the economy starts to decrease. As economic activity continues to fall, the economy will enter a RECESSION.

When the economy is in a **RECESSION**, there is decreasing INFLATION due to less consumer spending and falling costs. Eventually, costs and prices get so low that people can afford to spend again. This increases demand and causes production and employment to rise. This means that the level of activity and wages in the economy starts to increase. As economic activity continues to rise, the economy will enter a BOOM.



When an economy is experiencing a **BOOM** then the following happens to businesses.

- *LOW LEVELS OF UNEMPLOYMENT*
- *HIGH DEMAND FOR GOODS AND SERVICES*
- *HIGH LEVEL OF PRODUCTION*
- *HIGHER PRICES DUE TO INFLATION*
- *EASY TO GROW DUE TO HIGH DEMAND*
- *EXTRA COSTS DUE TO INFLATION*

When the economy is experiencing a **RECESSION** then the following happens to businesses.

- *HIGH LEVELS OF UNEMPLOYMENT*
- *LOW DEMAND FOR GOODS AND SERVICES*
- *LOW LEVEL OF PRODUCTION*
- *LOW PRICES DUE TO INFLATION*
- *LESS COSTS DUE TO INFLATION*
- *DIFFICULT TO GROW OR SURVIVE DUE TO LOW DEMAND*

3 SOCIAL FACTORS

The term **SOCIETY** means all of the people in the economy that a business is working in. Society has constantly changing ideas about what they want, and what businesses should and should not do. These changes and examples of how they can affect businesses can be seen below.

- *DEMOGRAPHIC CHANGES*

  These are changes in the number and age of the people in society. Examples of how these changes can impact on a business can be seen below.

  - Growing number of older people has resulted in older workers and targeted products
  - Growing number of older people has resulted in new related products (eg stair lifts)
  - Smaller families have resulted in smaller cars and houses
  - Older mothers have more money and so maternity markets are more profitable

- *SOCIO-CULTURAL CHANGES*

  These are changes in the opinions and lifestyle of people in society. Examples of how these changes can impact on a business can be seen below.

  - Pressure groups causing bad publicity and problems
  - Falling sales of undesirable products (eg fur coats, unhealthy food)
  - Falling sales for businesses that test products on animals
  - Falling sales for businesses that pay workers (in the developing world) very poorly
  - Falling sales for businesses that treat workers (in the developing world) very poorly
  - Changes in diet resulting in new markets (eg new health food markets)
  - More people work and so convenience food markets are increasing
  - More car usage increasing the use of out of town businesses

4 TECHNOLOGICAL FACTORS

The term **TECHNOLOGY** refers to all of the consumer and capital goods available and used in a society. Technology is constantly changing through enterprising activities. For example, many businesses now use robotics to build goods rather than only workers, and many consumers now watch Blu Ray instead of DVD.

This means that the use of **NEW TECHNOLOGY** can result in the following positive changes for businesses.

- *LOWER PRODUCTION COSTS AND PRICES*
- *INCREASING QUALITY STANDARDS FOR PRODUCTS*
- *NEW UNIQUE PRODUCTS*
- *RISING SALES (from unique products, higher prices and lowered quality)*
- *INCREASED FINANCE (from falling sales)*

However, the use of new technology can often be expensive due to **PURCHASE**, **SET UP** and **RUNNING COSTS**. This means that not all businesses can afford to use it and so may face the following problems.

- *HIGHER PRODUCTION COSTS AND PRICES FOR PRODUCTS*
- *FALLING QUALITY STANDARDS FOR PRODUCTS*
- *FALLING SALES (from higher prices and lowered quality)*
- *LACK OF FINANCE (from falling sales)*

5 ENVIRONMENTAL FACTORS

The **ENVIRONMENT** is about the world around us, and environmental factors can result in positive changes for businesses - for example, the discovery of new resources can create new markets to work in.

However, sometimes the opposite is true and environmental factors have a negative effect on businesses. Examples of this situation would include the following.

- *DELAYS AND DAMAGE TO PRODUCTION CAUSED BY BAD WEATHER*
- *DELAYS AND DAMAGE TO PRODUCTION CAUSED BY NATURAL DISASTERS (eg floods)*
- *INCREASING COSTS TO MINIMISE EXTERNALITIES (eg noise or chemical pollution)*
- *EXTRA COSTS OF MEETING NEW ENVIRONMENTALLY FRIENDLY LAWS AND POLICIES*
- *PRESSURE GROUPS CREATING BAD PUBLICITY ABOUT CHEMICAL OR NOISE POLLUTION*
- *FALLING SALES FOR BUSINESSES THAT CAUSE CHEMICAL POLLUTION TO THE ENVIRONMENT*
- *FALLING SALES FOR BUSINESSES THAT CAUSE NOISE POLLUTION*

6 COMPETITIVE FACTORS

A **MARKET** exists when buyers and sellers can come together to buy and sell goods and services. Markets can exist in different ways. For example,

- *DIRECT MARKETS - buyers and seller deal with each other (often face to face)*
- *INDIRECT MARKETS - someone else makes the deal between buyer and seller (eg estate agent)*

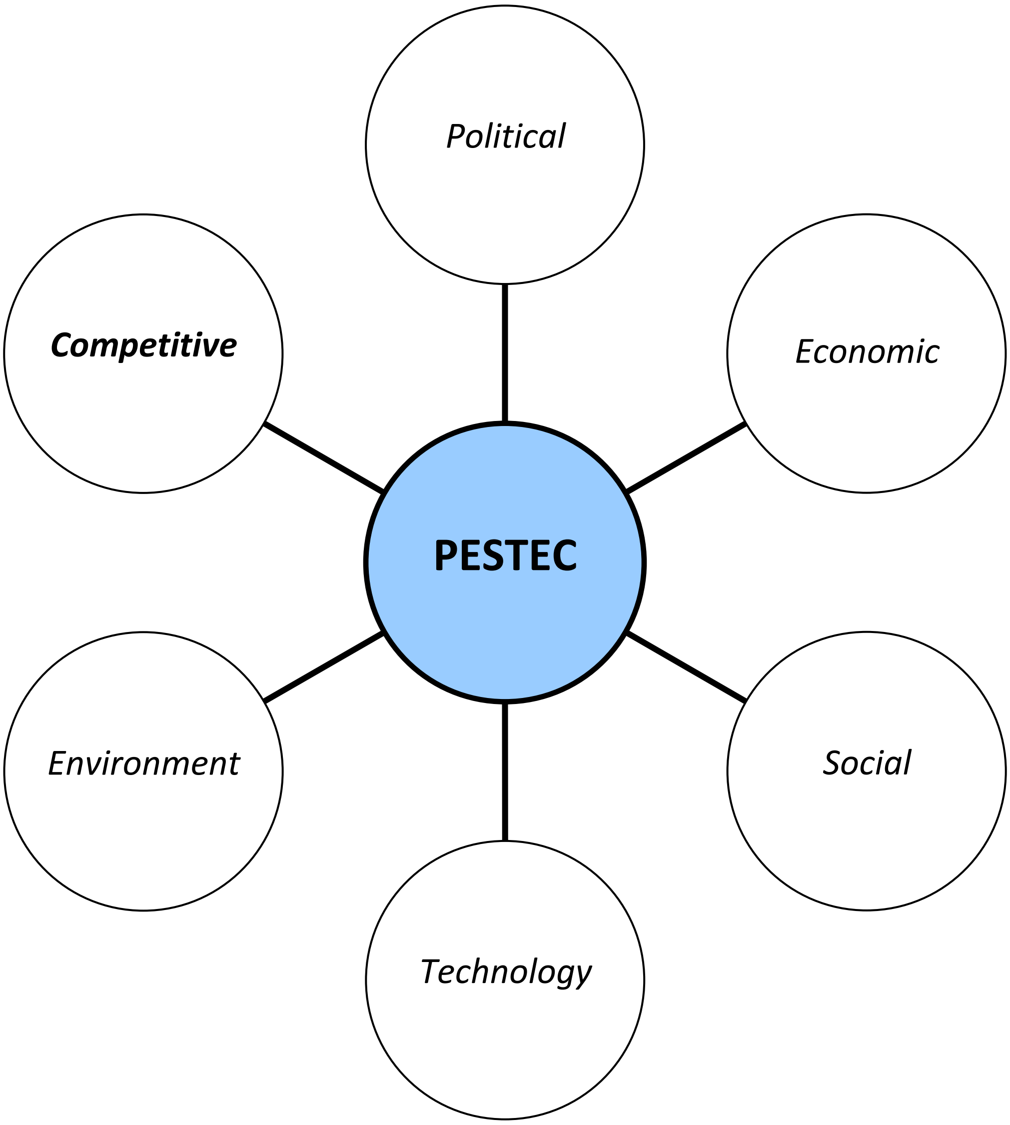
Markets can also be different sizes. For example, a **LOCAL MARKET** would be a shopping centre while a **NATIONAL MARKET** would cover a whole country.

Almost all markets that businesses operate in today are **COMPETITIVE**. This means that there are different businesses all trying to outdo each other to get consumers to use their products. Actions that businesses take to outdo each other in these markets are known as their **COMPETITIVE ADVANTAGES**.

Competitive advantages of one organisation in a market can be a challenge for other businesses in the same market due to the **POOR SALES** and **CASHFLOW** that they can cause in the following ways.

- *NEW COMPETITOR PRODUCTS*
- *LOWER COMPETITOR PRICES*
- *BETTER QUALITY COMPETITOR PRODUCTS*
- *BETTER COMPETITOR ADVERTISING AND PROMOTION*

The main external environmental factors which affect the decision making and activities of businesses can be remembered as **PESTEC**.



All of these external environmental influences are very important to decision making and business activity as they can cause unavoidable problems that the business will have to work hard to react to rather than simply prevent in the first place. This is because they are **NOT** under the direct control of the business (like internal factors are).

In addition, it is worth noting that although all of the above external factors are important, the one which tends to have the most day to day impact is the **COMPETITIVE** factor. This is because competitors change things more frequently than the other factors tend to and so businesses will find they are dealing directly with these issues most regularly.

HOW DO BUSINESSES DEAL WITH THE FACTORS THAT INFLUENCE THEM?

Businesses can try to deal with any negative issues which arise from the main factors which influence their decision making as follows.

Issue	Activity
STAKEHOLDER ISSUES 	• Use information to find out what stakeholders want • Carry out activities that will try and meet stakeholder needs and wants • Try to prevent stakeholder conflict • Be mindful of the interdependence of stakeholders
POOR QUALITY EQUIPMENT 	• Choose quality equipment carefully • Ensure equipment is well looked after and serviced • Ensure equipment is used properly by (skilled and trained) staff • Reinvest in new equipment when necessary.
POOR FINANCE 	• Do not take too much credit because you will not be able to pay it all back • Do give too much credit because you will have delays in receiving money • Do not spend more than you have to on materials and production • Choose location carefully and relocate if necessary to lower costs • Try and maximise sales to get money in
POOR QUALITY LABOUR AND MANAGEMENT 	• Use effective recruitment procedures for staff and managers. • Provide effective training for staff and managers. • Monitor and act on staff and manager progress. • Dismiss and replace unproductive staff and managers. • Develop a suitable corporate culture.

Issue	Activity
POLITICAL ISSUES 	• Follow new laws or guidelines to prevent court action. • Follow new taxes to prevent court action. • React to changes in fiscal, monetary and competition policies.
ECONOMIC ISSUES 	• Try to reduce costs and prices during a slump. • Try to develop replacement products or markets to work in during slump.
SOCIAL ISSUES 	• Try to change production techniques to meet social standards. • Try to change product range to meet social standards. • Try to use positive marketing to repair any damage. • Try to develop replacement products or markets to work with.
TECHNOLOGY ISSUES 	• Try to change to make use of new technologies in production. • Try to develop replacement products or markets to work with.
ENVIRONMENT ISSUES 	• Try to change production techniques to meet environmental standards. • Try to change product range to meet environmental standards. • Try to use positive marketing to repair any damage. • Try to develop replacement products or markets to work with.
COMPETITIVE ISSUES 	• Try to match action of competitors in terms of cost and price. • Try to match action of competitors in terms of product quality. • Try to match action of competitors in terms of product range. • Try to develop replacement products or markets to work with.

These **EXTERNAL** problems can be especially difficult for a business to prevent or deal with because they cannot control them.

WHY IS IT IMPORTANT THAT BUSINESSES TRY TO ADDRESS THE FACTORS THAT INFLUENCE THEM?

It is important that a business tries to deal with the factors that influence their decision making and activities for the following reasons.

Positive influences should be addressed because they can help the business to achieve its objectives and provide the following benefits.

Stakeholder	Benefit
OWNERS/STAFF 	• HIGHER PROFITS (from more sales and cheaper production) • BETTER WAGES (from higher profits) • BETTER WORKING CONDITIONS (from higher profits) • JOB SECURITY (from higher profits)
CONSUMERS 	• LOWER PRICES (from cheaper production) • BETTER PRODUCT QUALITY (from better quality production) • WIDER RANGE OF GOODS AND SERVICES
SOCIETY 	• LOWERED UNEMPLOYMENT (due to production levels) • RISING LIVING STANDARDS (from wages available) • BETTER INFRASTRUCTURE (roads, rail links, etc) • BETTER HOUSING
GOVERNMENT 	• HIGHER TAX PAYMENTS (due to profit and wage levels) • BETTER PUBLIC SERVICES (from taxes available)

Negative influences should be addressed by a business because they can result in **BUSINESS FAILURE**. This means that the business has run out of money to pay its' bills and cannot continue. The following things will then happen to end the business.

People owed money by the business go to court to try and get their money back.

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The court puts the business that cannot pay bills into **ADMINISTRATION** (the legal process of the business trying to get money to pay those owed). When this happens, the court can put an **ADMINISTRATOR** in charge of the business instead of the normal management.

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The administrator will try to change the way the business is managed in order to raise enough money to pay off its debts. They may alternatively try to sell the business as a **GOING CONCERN** – this means that someone will buy the whole business, pay off its debts and carry on its' work as the new owner. If either of these actions work the business will come out of administration and be allowed to run with its' own managers again.

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If the business **CANNOT** pay back its debts (because it cannot be changed to run in a profitable way or sold as a going concern) then the **ASSETS** of the business and any unlimited owners will be sold to get cash which will be used to repay (some or all) of the debts of the business. This break up and sale of the business in parts is known as **LIQUIDATION**.