Business Management

N5

Understanding Business

1.2 - Influences on Business Activity

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*

Internal factors

- *FINANCE*
- *HUMAN RESOURCES*
- *CAPITAL*

External factors

- *POLITICAL*
- *ENVIRONMENTAL*
- *SOCIAL*
- *TECHNOLOGICAL*
- *ECONOMIC*
- *COMPETITIVE*

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.

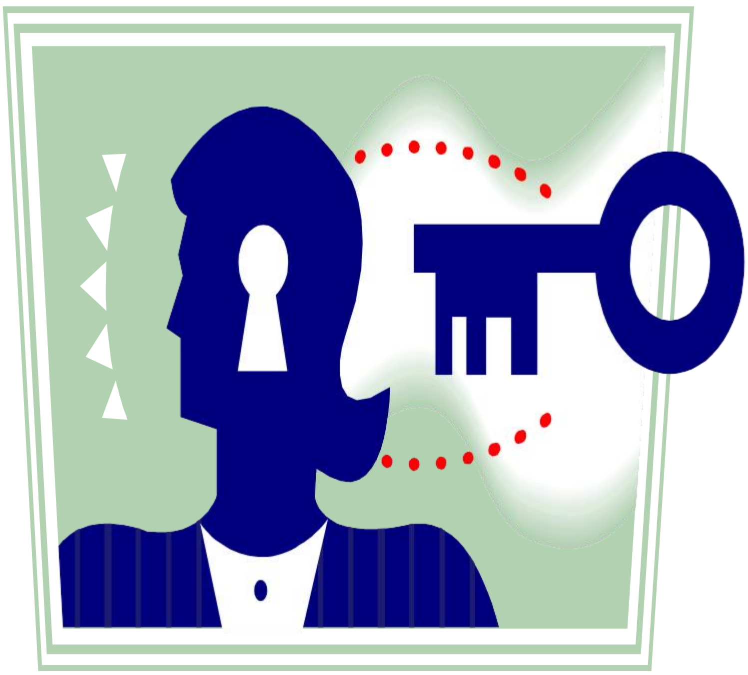
Businesses have to make different decisions about the following issues so that they can continue and succeed.

- *WHICH BUSINESS TYPE THEY WILL BE IN THEIR ECONOMIC SECTOR*
- *WHICH OBJECTIVES THEY WILL PURSUE*
- *WHICH INDUSTRIAL SECTOR THEY WILL OPERATE IN*
- *HOW BIG THE BUSINESS WILL BE*
- *HOW TO PRODUCE THEIR GOODS AND SERVICES*
- *HOW TO SATISFY THE NEEDS AND UNLIMITED WANTS OF CONSUMERS*

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.*

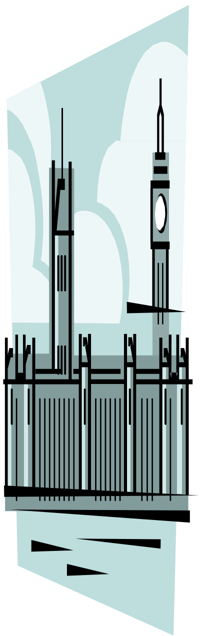
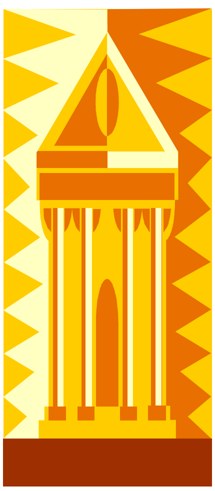
The main internal stakeholders who are interested in influencing business activity can be seen below.

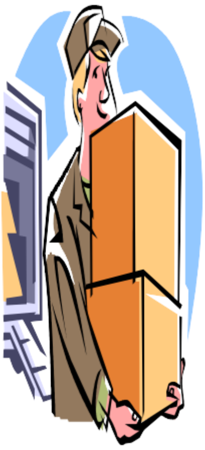
Internal Stakeholder	Stakeholder Interest?	Stakeholder Influence?
OWNERS 	The owners of an organisation are interested in making sure that it **ACHIEVES THE OBJECTIVE** that they set it up for.	• Owners influence the activities of a business by being able to **MAKE DECISIONS** that managers and staff 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 1 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.

<table>
<tr><th>External Stakeholder</th><th>Stakeholder Interest?</th><th>Stakeholder Influence?</th></tr>
<tr><td>GOVERNMENT
</td><td>Government wants to make sure that businesses are paying all of their TAXES and that they are following all relevant LAWS.</td><td>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 by 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.</td></tr>
<tr><td>BANKS
</td><td>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.</td><td>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 will have little impact.</td></tr>
</table>

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 being **SOCIALLY RESPONSIBLE**. This means that they are not causing a lot of harm to people.	• 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.

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 AVAILABLE

When a business has **LOTS** of finance (money) then it can make decisions that will help it survive by maximising consumer satisfaction. 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 LABOUR AVAILABLE

Having **LOTS** of skilled and committed labour (staff) in a business will bring the following benefits for it.

- *STAFF WILL MAKE HIGH QUALITY DECISIONS FOR THE BENEFIT OF THE BUSINESS*
- *STAFF WILL BE ENTERPRISING AND DEVELOP NEW PRODUCTS*
- *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. 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)*

3 CAPITAL AVAILABLE

Having **LOTS** of efficient capital (equipment) in a business is known as **MECHANISATION** or **CAPITALISATION**[1]. This can bring the following benefits for it.

- *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 capital 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 only capital is used this known as **AUTOMATION**.

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

Central, Devolved and Local Government can affect organisational activities through the following.

- *LEGISLATION (laws that set out rules that businesses must follow)*
- *TAXATION (money that a business must pay to Government)*
- *GOVERNMENT AGENCIES (rulings on organisational activities)*
- *GRANTS (money that Government may pay to support businesses)*

These kinds of Government actions can result in the following **BENEFITS** for businesses.

- *INCREASED FINANCE FROM NEW GRANTS*
- *MORE MONEY FOR THE ORGANISATION TO SPEND DUE TO DECREASED TAXES*
- *MORE MONEY FOR CONSUMERS TO BUY PRODUCTS DUE TO DECREASED TAXES*
- *INVESTMENT IN ROADS, etc*

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

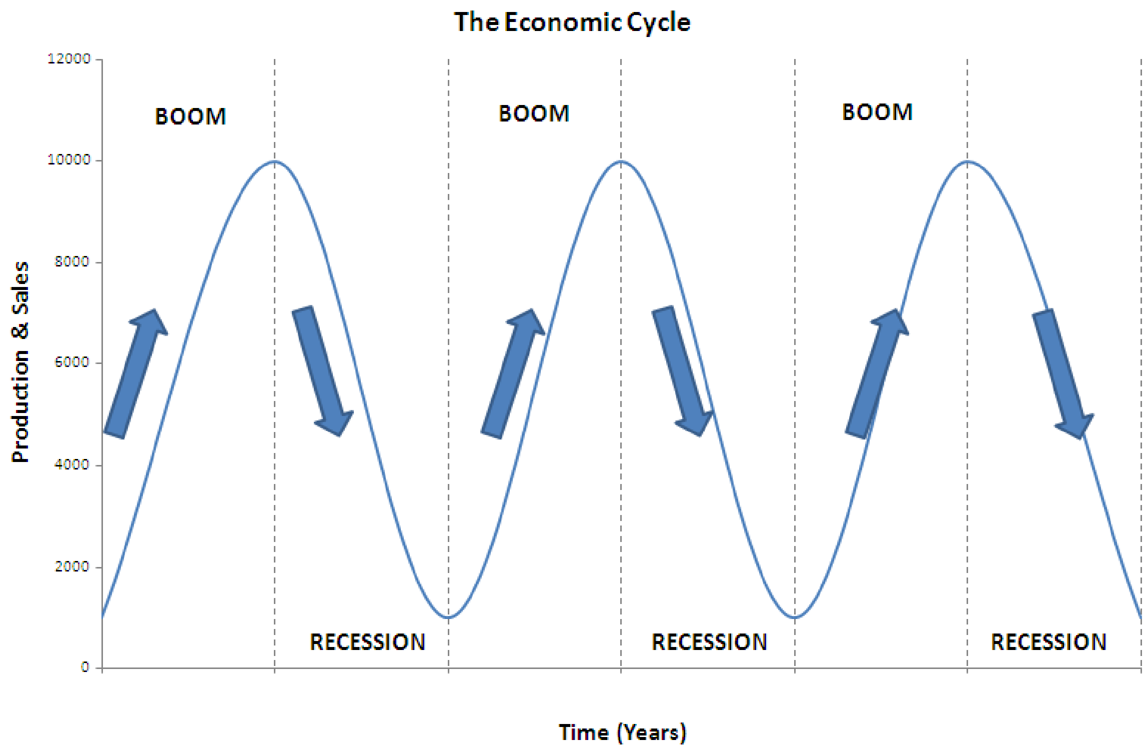
- *LOST FINANCE FROM DECREASES IN GRANTS*
- *LEGAL ACTION FROM THE USE OF CERTAIN ADVERTS BANNED BY LAW*
- *LEGAL ACTION FROM IMPROPER SALE OF PRODUCTS REGULATED BY LAW (eg alcohol)*
- *LEGAL ACTION FROM BREAKING SAFETY STANDARDS SET BY LAW*
- *LEGAL ACTION FROM NOT PAYING WAGE LEVELS SET BY LAW*
- *LESS MONEY FOR THE ORGANISATION TO SPEND DUE TO INCREASED TAXES*
- *FEWER CONSUMERS USING THE BUSINESSES PRODUCTS DUE TO INCREASED TAXES*
- *CHANGES TO WORKING DUE TO GOVERNMENT AGENCY ACTIVITIES*

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**.

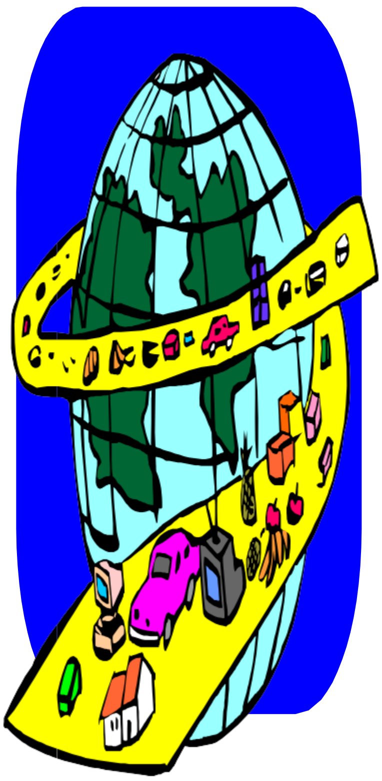
A simple economic cycle can be seen below.



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 third world) very poorly
  - Falling sales for businesses that treat workers (in the third 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 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 TO THE ENVIRONMENT*

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)*

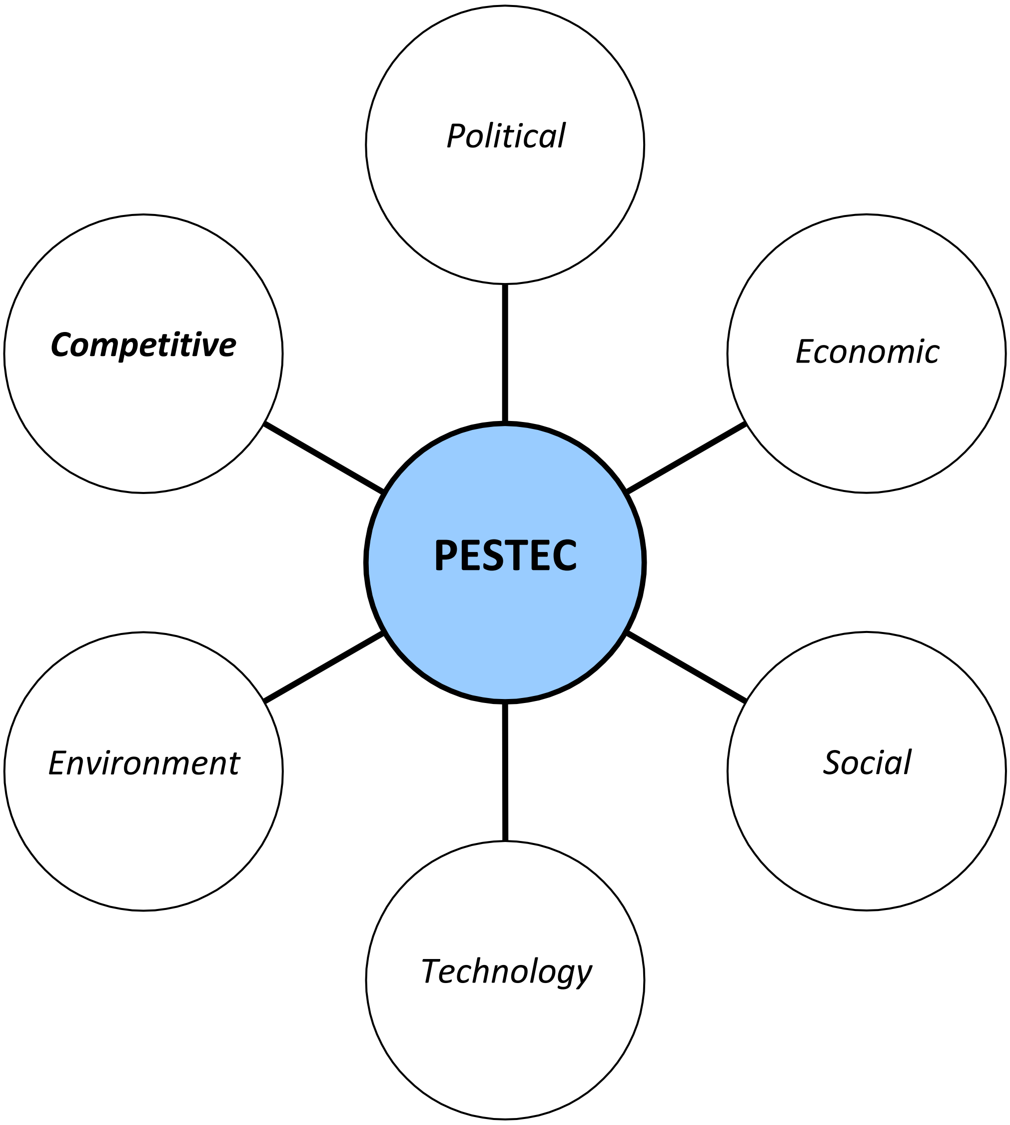
Markets can also be different sizes. For example, a **LOCAL MARKET** would be a shopping centre while a **NATIONAL MARKET** would cover a whole country.

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
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 	• 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.
POOR QUALITY CAPITAL 	• 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.

Issue	Activity
POLITICAL ISSUES 	• Follow new laws or guidelines to prevent court action. • Follow new taxes to prevent court action. • Try to develop replacement products or markets to work with.
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.

The above **EXTERNAL** problems are hardest 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.

Issue	Activity
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. The administrator may try to get someone to buy the whole business, pay off its debts and carry on its' work with new owners. This is known as selling the business as a **GOING CONCERN**. 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 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**.