

# **BUSINESS ENVIRONMENTS**

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## MODULE 1

This module takes a look at the control factors that a business has over the micro, market and macro environments in its daily operations.

IN THIS MODULE YOU WILL ENGAGE IN THE FOLLOWING KNOWLEDGE, SKILLS AND ATTITUDES:

TOPIC 1 & 2: COMPARE AND DESCRIBE THE EXTENT TO WHICH A BUSINESS CAN CONTROL AND INFLUENCE ITS BUSINESS ENVIRONMENTS.

TOPIC 3: IDENTIFY AND DISCUSS HOW A BUSINESS CONSTANTLY NEEDS TO ADAPT TO THE CHALLENGES OF ITS ENVIRONMENTS.

TOPIC 4: ANALYSE AND INTERPRET THE IMPACT AND CHALLENGES OF CONTEMPORARY SOCIO-ECONOMIC ISSUES ON BUSINESS OPERATIONS, AND MAKE DECISIONS FOR SPECIFIC BUSINESS SITUATIONS.

TOPIC 5: IDENTIFY AND INVESTIGATE THE LINKS BETWEEN VARIOUS PRIMARY, SECONDARY AND TERTIARY ENTERPRISES.

**TOPIC 1 INFLUENCES ON THE BUSINESS ENVIRONMENT****LEARNERS COMPLETE ACTIVITY 1****UNIT 1: FACTORS THAT CONTROL THE BUSINESS ENVIRONMENT**

**The business environment consist of 3 parts:**

1. **micro**
2. **market**
3. **macro**

**The MICRO-environment**

This is the **internal environment** of a business; the business carries all activities within this environment. It indicates the smallest of the 3 environments.

The micro-environment consists of the following:

- **vision, mission, goals and objectives**
- **The 10 business functions**
- **management**
- **organisational structure**
- **resources**
- **organisational culture**

**NB: The business can fully control and influence all these elements**

**1. Mission and objectives**

- Reflects the types of products/services the business provides and who its customers tend to be. The objectives usually follow the company's mission statement.

**In your work books explain the meaning of the following terms:  
Business vision, business mission, objective, strategy, business culture and business goal.**

**2. Business functions**

- Marketing, HR, financial, PR, purchasing, operations, administration, general management, risk management and ICT.

**3. Resources/FOP**

- Physical, financial, human and information resources.

**The MARKET environment**

The environment immediately outside the business. It is also known as the industry environment

In your own words explain the term 'market environment'.

Consists of the following:

- suppliers
- regulators
- unions
- customers
- competitors/intermediaries

Although the business has no control over these variables, it can influence the market environment

**The MACRO-environment**

The external environment which the business has no control.

In your own words explain the term 'macro-environment'.

Contains variables such as:

- physical environment
- economic environment
- social environment
- technological environment
- legal/political environment

- international/global

Use the space below to explain in your own words the extent of control the business has on the elements listed above.

In your exercise book explain how a business might exercise control on its

1. micro environment
2. market environment
3. macro environment

Discuss at least 5 points per heading.

## UNIT 2: THE INVOLVEMENT OF THE BUSINESS IN THEIR MACRO ENVIRONMENT

Business management must be:

- Aware of what is happening within all aspects of the macro environment
- Be involved and prepared for all changes that occur

The business must be involved in the following aspects of its macro environment:

### **The economy**

The economy experiences changes when businesses expand and profits increase to when profits are reduced and some firms are forced out of business.

- **Businesses need to be aware of changes in the economy so that they can take advantage of the good times and take precautions before the bad times.**
- **Changes in the levels of business activity cause changes in the buying patterns of consumers so firms need to be flexible in what they supply.**

### **Changes in the natural environment**

Businesses need to be sensitive towards environmental issues because customers expect businesses to:

- **Be aware of their impact on the environment**
- **Move towards reducing their carbon footprint**
- **Be able to produce goods and services that are environmentally friendly**

### **Technological environment**

Businesses need to keep up with the latest technological developments by:

- **Using the most efficient methods of production**

- **Developing new products based on the latest technology**

### **Political and legal environment**

Businesses must understand how laws and regulations impact on their activities. The laws serve to:

- **Regulate industries**
- **Control trade with other countries**
- **Protect industries, consumers and employees**

### **Global forces**

- **Businesses that take advantage of this development can significantly increase their markets**
- **Businesses can also use the Internet to source the cheapest or best-quality raw materials internationally**

### **Social conditions**

Businesses are greatly influenced by the social and cultural conditions that exists in the country. They must understand the needs and economic position of their customers and adapt in order to try to satisfy their needs. This must also extend to attracting new customers.

- 1. Indicate with which business environment the following are associated:**
  - 1.1 Employment Equity Act applies to businesses with more than 50 employees**
  - 1.2 Financial crisis in Europe blamed for drop in exports of Proteas**
  - 1.3 SupaFoods aims to produce high-energy foods of outstanding quality**
- 2. Distinguish between the effect of a recession and that of economic prosperity on a car-assembly company.**
- 3. Give 2 advantages that a business can gain from globalisation.**

## **TOPIC 2 CHALLENGES OF THE BUSINESS ENVIRONMENT**

FACTORS INFLUENCING THE MICRO ENVIRONMENT:

### **Size and nature of the business**

In a small business the owner is responsible for all activities of the business. Larger businesses may need separate departments to carry out the various activities of the business.

### **Type of product or service produced**

Service businesses, such as transport carriers, rely heavily on maintenance and human resources.

### **Style of management**

A small business may have an informal culture, with a more personal style of management, whereas, large enterprises may require a more formal approach.

### **Business vision, mission and goal**

#### **Business functions**

Business functions are various tasks that must be performed and co-ordinated for a business. In a small business, the owner or manager is responsible for most of these functions. However, as enterprises grow in size, businesses require greater specialisation.

Administration, general management, financial management, HR management, marketing management, public relations, purchasing, production, risk management and ICT management.

#### **Definitions of Business Functions:**

**Administration** – Acquiring, collecting, processing, making and safekeeping information. Decisions are based on information.

**General management** – Develops strategic plans. Consists of: planning, organising, leading and control.

**Finance** – Determine the need for funds. Acquire the funds from suitable sources.

**Human Resources** – To find the suitable person for the right job. To appoint a person to the position where his capabilities can be used to the advantage of the business.

**Marketing** – Making the public aware of what is available through advertising, etc. Bring the goods within easy reach of the consumer through storage, distribution and advertising.

**Public relations** – promote a positive image by liaising with the relevant stakeholders.

**Purchasing** – Involved in all the purchasing of raw materials & capital goods of the correct quality, quantity, price, time and place.

**Production** – Acquiring the raw materials from the various sources. Converting raw material into finished products of a pre-determined standard.

**Information & communication technology** – Managing information and making decisions based on historical ideas.

**Risk management** – Deals with issues on how to avoid, reduce, eliminate or prevent risk exposure.

## Employees

- Employers need workers to achieve their business objectives and workers need jobs to provide them with an income on which to live.
- There must be clear instructions and a good understanding between employers, managers and workers.

Legislation to control employer/employee relationships includes:

Labour Relations Act, the Basic Conditions of Employment Act, the Skills Development Act, the Skills Development Levies Act, the Employment Equity Act, the Occupational Health and Safety Act, the Compensation for Occupational Injuries and Diseases Act and the Unemployment Insurance Act.

### EMPLOYEE SKILL LEVELS

- In the recruitment process, management must employ an employee with the required knowledge and technical skills level. If the employee does not meet the skills requirement, the employer must train the employee. The same applies when a business upgrades machinery or uses more sophisticated technology.
- Employers must also send employees to interpersonal skills training to try to improve their communication and assertive skills.
- Management has therefore the ability to control the possible consequences of poor worker skills.

### EMPLOYEE RETENTION

When a business is experiencing high employee turnover, management needs to find out why employees leave on such a regular basis and to correct the problem.

**What ways can a business use to retain more of its employees?**

## UNIT 1: CHALLENGES FACED BY THE MICRO ENVIRONMENT

### DIFFICULT EMPLOYEES

- **Some workers find it difficult to cooperate and work together in a team**
- **Some employees do not react well to pressure to increase production and productivity**
- **As inflation increases, there are demands for higher wages and these can result in strikes**
- **Some employees may not identify with the goals of the business**
- **Negative attitude by unhappy workers may soon extend to other workers**
- **Workers may fear losing jobs during recession**



If workers are not pulling their weight, someone else must carry some of their load or the overall performance of the business will suffer. Poor work ethics and attitudes result in loss of profits which will ultimately mean that the business ceases to operate. Managers can control poor attitude or work ethic through discussion with the individual involved.

*The challenge is to manage the difficult workers well so that the problems can be solved before the dissatisfaction becomes worse and spreads throughout the workforce.*

1. **Define the term *productivity***
2. **What other methods can management use to control for poor work ethic or attitude?**

### **LACK OF VISION AND MISSION**

Some companies have a vision which they sometimes fail to put in practice. Those that do not have a clear vision of where they are heading are not as motivated and focussed as they should be.

*The challenge is to train managers to inspire the workforce to accept and act on the business's mission statement.*

### **LACK OF ADEQUATE MANAGEMENT SKILLS**

A business cannot operate efficiently if management cannot plan, lead, direct and control the business. Without these skills managers would fail to respond to challenges that confront the business and this results in productivity and lower profit margins.

*The challenge is to employ and develop managers with the following skills:*

- *Technical skills to direct the process of production*
- *Good interpersonal skills to manage workers*
- *Conflict-resolution skills to keep harmonious relations in the workforce*
- *Problem-solving skills to carry out the vision of the company.*

### **TRADE UNIONS**

**Define the term trade union**

**A trade union is an association of workers that:**

**Protects the rights and interests of workers**

**Negotiates with management of businesses about conditions of employment and wages**

*The challenge in dealing with unions is that they tend to stress the rights of workers without considering the responsibility of management to maintain production levels. Management must maintain good relations with unions and prevent negotiation failure.*

When negotiations break down, unions may decide to take industrial action. Industrial action consists of **strikes** and **go-slows**. These actions have a negative effect on production, profits and relations between workers and management.

1. Define the terms *strike* and *go-slow*.
2. Indicate the concept being defined in the following:
  - 2.1 The relationship between the quantity of the inputs and the quantity of the outputs.
  - 2.2 Consists of strikes and go-slows.
  - 2.3 An association of workers which protects the rights and interests of employees.
  - 2.4 Negotiations between management and workers.
  - 2.5 When workers deliberately work very slowly.

FACTORS INFLUENCING THE MARKET ENVIRONMENT:

### Consumers (the market)

- The people who buy goods and services offered by the business in order to satisfy their needs and wants.
- Business use Maslow's hierarchy to persuade consumers to buy.
- Consumer tastes and habits will change over time. Responding to consumers – through satisfaction and preference surveys → direction of consumer's changing tastes and habits

### Suppliers

- Businesses or individuals that provide the business with inputs to the production process.
- Management has no control over this variable but can influence the price of supplies by buying in bulk and obtaining a lower price for the products.
- Inputs needed by business from suppliers are (raw materials, stock, equipment), capital and labour.

### Intermediaries

- Firms which help, sell promote and distribute their goods to the final consumer
- Includes retailers, wholesalers, brokers, agents and franchising
- Businesses can influence intermediaries in many ways ⇔ intermediaries can close the gap between producer and consumer by bringing goods within easy reach of the consumer.

### Competitors

- Important to offer what consumers want.

## UNIT 2: CHALLENGES OF THE MARKET ENVIRONMENT

### COMPETITION

Competitors **are those businesses that produce the same or similar goods and services.**

*The challenge is for management to develop strategies to deal with competition by:*

- **Offering exceptional service**
- **Reducing prices**
- **Offering a range of different products**
- **Improving quality**

### SHORTAGE OF SUPPLY

It is essential for businesses to have a regular supply of materials that are inputs in the production process. The work of the purchasing manager is to:

- **Identify reliable suppliers**
- **Establish a good relationship with suppliers**
- **Negotiate the best deals**
- **Constantly check for new suppliers**
- **Enter into contracts with suppliers to secure raw materials of a good quality in sufficient quantities**

*The challenge is to find reliable suppliers at the best prices. The business needs to plan and communicate well so that any change in goods and services needed is fulfilled on time.*

### CHANGES IN CONSUMER BEHAVIOUR

Businesses need to be aware that consumers easily change their tastes and habits.

- **Consumers are mainly influenced by changes in fashions and new technology**
- **If consumers buy less of a product, this can have a serious effect on, and can even threaten, the long-term success of the enterprise**
- **If consumers increase their demand the business has to be ready to take advantage of the opportunity**
- **Losing a market for a product will have a negative effect on profits and employment**

*The challenge is for businesses to:*

- **Keep up with changes in consumer tastes and demand by doing research**
- **Find ways to influence consumer demand**
- **Conduct advertising campaigns and consumer surveys**

### DEMOGRAPHICS

Businesses need to understand the demographics and psychographics of the target market.

**Define the terms *demographics* and *psychographics*.**

**Demographics are the characteristics of customers who buy products or services, such as their age, educational and income levels.**  
**Psychographics is the study of social and cultural aspirations, viz. beliefs, attitudes, values and behaviours.**

*The challenge is for businesses to:*

- **Collect information about the target market**
- **Interpret the information correctly**
- **Use the data to develop a marketing strategy**

### **SOCIO-CULTURAL FACTORS**

Socio-cultural changes include:

- **The increase in urbanisation and other population shifts leading to changes in lifestyles**
- **Awareness of environmental issues**
- **Demand for healthy foods such as organically grown foods**
- **New technology**
- **Availability of scarce resources**
- **Changing values regarding the role of all population groups in society and business**

Businesses must understand:

- **The different cultures, religions and social norms of the area in which they operate**
- **That social changes have a major impact on the market environment**
- **That consumers can change their needs and wants**

*The challenge is to gather information about changes and to respond to them by adapting practices to maintain and increase its customer base.*

**Choose one option from the alternatives in brackets that will make the sentence true.**

1. **A monopoly is the situation when there is (only a few/only one) supplier of a good or service.**
2. **The total production of a firm is called its (outputs/inputs).**
3. **Suppliers provide all the (outputs/inputs) for a business.**
4. **Information about the population, such as age, gender and income levels, is called (psychographics/demographics).**
5. **The classification of customers according to their attitudes and aspirations is called (psychographics/demographics).**

## FACTORS INFLUENCING THE MACRO ENVIRONMENT:

**Technological**

- New technologies/inventions change how a business is run, e.g. Internet, fax machines, computers, scanners, etc.
- New technologies also change the way of life of most people. Hence, the business consumers' needs and wants.
- Technology increases productivity, quality and minimises wastage of materials. This leads to higher efficiency and rate of production → lower prices and higher profits.
- New technologies for businesses → communication, selling and providing of services will be easier, e.g. Internet, e-mail, voice-over Internet, etc  
→ opportunities – **advertising**.

**What are the possible threats from the technological environment?**

**Economical**

- Changes in the government's economic policy → changes in money supply, interest rates and exchange rate → changes in market and micro environments.
- Economic growth ⇒ **range and number of products and services produced in a country – MEASURED IN GDP (total value of all goods/services produced within the borders of a country in a year)**.
- Sustainable economic growth → higher employment, salaries and disposable income to spend on goods and services.

**Exchange rate**

- Amount of **ONE CURRENCY YOU CAN GET IN EXCHANGE FOR ANOTHER**, e.g. US\$1 = R6.00 ⇒ \$1 can be exchanged for R6.
- If the exchange rate depreciates against those of major trading partners, imported goods become more expensive. More local currency can be earned when exporting → more TOURISM.
- If the exchange rate appreciates it becomes expensive to export and cheaper to import.
- A volatile (fluctuating) exchange rate makes it difficult for importers and exporters to time their purchases and sales.
- **Factors influencing the exchange rate**
  - **Investors' confidence**
  - **International events**
  - **Strength of the economy**
  - **Foreign debt**
  - **Supply and demand for foreign and local currency**

**Fiscal and monetary policies**

- **FP – rules for government expenditure and taxation as set out in its annual budget.** e.g. **AsgiSA** – Accelerated Shared Growth Initiative for SA – it is an

infrastructural plan (expansion of ports, railways, roads, power stations and communication systems) which aims to increase economic growth by 6%p.a. Other govt initiatives include skill development through the SDF and creation of SMMEs and building of stadia for the FIFA world cup. Government in the budget aims to reduce the budget deficit → affects future economic growth.

- **MP – SARB formulates and implements MP.** AIM – reduce inflation rate while maintaining a stable currency and containing growth in the MS.

### Inflation

- General increase in prices over a specified period together with a reduction in the buying power of money.
- Measures of inflation
  - CPI (CONSUMER PRICE INDEX) – measures increases in consumer prices.
  - PPI (PRODUCER PRICE INDEX) – measures increases in production prices.
- A high inflation rate → increase in cost of goods/services; workers demand higher wage increases to keep pace with higher inflation rates. Products may become too expensive and which may result in reduction in sales.

### Interest rates

- The rate at which financial institutions lend money is known as the **prime rate**. A prime rate of 10% means that 10% interest will be charged on money borrowed from the bank. When level of savings is low, commercial banks borrow money from SARB. Commercial banks borrow at the repo rate – interest rate at which the SARB lends money to commercial banks. The prime rate is higher than the repo rate. An increase in the repo rate → increase in the prime rate → increase in interest repayments by customers and therefore making it difficult for firms to borrow money → reduction of production and employment.

Go to [www.reservebank.co.za](http://www.reservebank.co.za); find what the repo, prime and inflation rates are currently.

**Found out what effect the interest and inflation rates have on credit purchases and profits for those businesses selling on credit.**

### Taxation

- Used to raise funds in order to manage the country and provide infrastructure and social services.
- A growing economy → broader tax base because of more people who are employed. Businesses therefore make bigger profits and consumers spend more on purchasing goods/services.
- More tax collected → reduced tax rate paid by individuals and businesses.
- Less tax collected → more disposable income to spend.

**Social**

- Expression of cultures, norms, values and lifestyles of citizens and this influence goods/services that businesses supply and way in which they are marketed.
- **CONSUMER RIGHTS (SA Consumer's Union)**
  - Right to safety – protection against potentially dangerous products.
  - Right to be informed – providing correct information on labels.
  - Right to freedom of choice – access to competitors products and protection against unfair competition.
  - Right to be heard – consumers receiving attention from the govt and business

**Physical (Raw Materials in a country)**

- LTD resources to satisfy UNLTD needs, e.g. SA blessed with natural beauty, good climate and abundant minerals → mining and tourism industries being the major sources of business creation.
- Water is scarce → reduced economic development and agriculture, therefore water conservation schemes
- Carbon pollution → global warming → opportunity to create sustainable energy.

**International**

- MNCs find themselves in complex global business environment with more threats and opportunities.
- E.g. Apartheid era – international and local politics were in conflict hence affecting how a local business made decisions and operated, then.

**Legal**

- Put additional pressure on a business. E.g. law on plastic bag packaging, where consumers have to pay for this packaging in order to reduce pollution.
- Other laws such as employment equity – it forces firms to change racial composition of their workforce. Firms without an equity plan can be fined.

**Political/institutional**

- Political situation in a country can affect both domestic and international trade.
- CSIR, SABS, SARB, etc pose interpersonal relations challenges.

**Economic sanction**

1. **What does the term 'economic sanction' mean?**
2. **Give examples of situations where economic sanctions were applied.**
3. **In each situation, what sanctions were applied?**
4. **What are the economic effects of sanctions? List two.**

- The international community can impose economic sanctions if a government follows policies that contradict acceptable standards, e.g. economic sanctions were applied to South Africa during the apartheid era.
- Disadvantage of economic sanctions – Restrict development because of limited supplies of strategic materials such as oil. Products also become more expensive

because of a lack of supplies and the consumer will have a limited variety of goods to choose from.

## Globalisation

1. **What does the term 'globalisation' mean?**
2. **How does globalisation affect a country's economy?**
3. **How does globalisation affect a business?**

- International events such as

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can have an indirect impact on most businesses.

**Give an example and explain how an international event can affect a business and its customers.**

- Globalisation offers many opportunities to businesses, e.g. trade agreements between countries can open new markets and enable businesses to import materials and components more cheaply. This enables them to cut the cost of production and makes prices of goods and services more affordable for the consumer. E.g. the South African Motor vehicle industry.

## UNIT 3: CHALLENGES IN THE MACRO ENVIRONMENT

### CHANGES IN INCOME LEVEL

Businesses have a problem in that their customer income changes as the economy grows and contracts. The country's central bank (South African Reserve Bank) is responsible for guiding the development of the economy in the following ways:

#### When the economy is growing:

- **More people are employed**
- **Consumers have more money to spend**
- **Greater demand stimulates production**
- **Businesses sell more products and make bigger profits**

#### When the economy is not growing:

- **Fewer people are employed**
- **Consumers have less money to spend**
- **Lower demand means reduced production**
- **Businesses sell fewer products, profits drop and some workers lose their jobs**

When SARB wants to stimulate growth, it reduces the interest rate. This means that:

- **It becomes cheaper to buy on credit so consumers buy more**
- **Businesses expand**



- **More people are employed**

When the economy is growing too fast and prices go up (inflation), SARB increases interest rates. This means that:

- **It is more expensive to buy on credit so consumers buy less**
- **Businesses stop expanding so fast**
- **Fewer people are employed**

Changes in taxation also influence the buying power of consumers. Increases in taxes increase prices of goods and services so people have less money to spend.

### **POLITICAL CHANGES**

A stable government is one that is free of political unrest and, as a result:

- **Promotes a feeling of security and confidence for businesses**
- **Is essential for economic growth and successful business**
- **Can make lasting trade agreements that promote the development of markets**
- **Attracts foreign investment in new businesses**

Instability results in low rates of investment in new and existing businesses.

### **CONTEMPORARY LEGISLATION**

Laws passed by Parliament to ensure that country is governed properly. Businesses must operate within legal framework of, e.g. Consumer Protection Act, National Credit Act, New Companies Act.

*The challenge for businesses is to:*

- **Keep track of new legislation concerning businesses**
- **Understand how the new conditions apply to business**
- **Carry out the laws correctly**

### **LABOUR RESTRICTIONS**

SA has lots of legislation to protect workers, to redress inequalities of the past and to restrict practices of employers. These laws include: Labour Relations Act, Employment Equity Act, Basic Conditions of Employment Act, Compensation for Occupational Injuries and Diseases Act, and Broad-based Black Economic Empowerment Act.

**For each of the laws listed under *contemporary legislation and labour restrictions*, write a brief description of what they are for in your exercise book.**

### **MICRO-LENDING**

**Providing short-term cash loans to low-income clients who are unable to access funds from the usual banking system.**

Small businesses cannot go to commercial bank for loans to fund their business operation. Thus, they go to micro-lenders who often charge very high interest rates. In SA micro-lending is regulated by the Micro Finance Regulatory Council, which is regulated by the National Credit Regulator. The advantages of micro-lending for businesses include:

- **People who earn low incomes can get credit and increase their buying power**
- **The promotion of entrepreneurship and job creation**
- **The generating of economic activity**

### **GLOBALISATION AND OTHER INTERNATIONAL CHALLENGES**

**The breaking down of international barriers to trade to promote the free movement of goods and services to create a global economy.**

Businesses can benefit from:

- **The creation of an international market for their output of goods and services**
- **Production that can take place anywhere and take advantage of lower costs**
- **The fact that their consumers take advantage of lower prices**

*The challenges of globalisation include:*

- **Dealing with increased competition from producers all over the world**
- **Subsidies to local industries in some countries, which give them advantages**
- **Import duties imposed by some countries so that foreign goods are disadvantaged**
- **Labour costs that are so low in some countries that local industries can't compete with**
- **Industries without modern technology can't compete**
- **Language differences, which create complications**

### **SOCIAL VALUES AND DEMOGRAPHICS**

Businesses draw customers and workers from the people of the country, so they need to be aware of the social and cultural values and religious beliefs that exist in various local communities.

*The challenge is for businesses to:*

- **Understand employees and customers – including their different cultures and social values – in the areas and countries to which they export**
- **Adapt to changes that occur in the target market**

### **SOCIO-ECONOMIC ISSUES**

In SA, these include:

- **A high crime rate**
- **Large numbers of poor people**
- **High levels of unemployment**
- **A shortage of skills**
- **Many unskilled people with limited education**

- **A high rate of HIV infection**

Because government has been ineffective in reducing these, businesses are expected to implement social-responsibility programmes to try to deal with social problems in their areas.

*The challenge is to:*

- **Create effective social responsibility programmes**
- **Take steps to guard against criminal activity**
- **Set up training programmes**
- **Operate HIV-awareness programmes**

**1. Identify the following definitions:**

**1.1 Short-term cash loans to low-income clients who are outside the banking system.**

**1.2 Programmes set up by firms that try to deal with social problems in their areas.**

**1.3 The free movement of goods and services between countries to create a global economy.**

- 2. Explain 3 circumstances in which customers can experience a drop in their income and the effect of this on the motor industry.**
- 3. Explain how the clothing and textile industry in SA has been affected by globalisation.**
- 4. Give 3 examples of labour legislation that influence the way businesses employ people. Give a challenge that each Act imposes on a business.**

**OTHER CHALLENGES TO THE BUSINESS ENVIRONMENT**

**CHALLENGES IN THE MICRO ENVIRONMENT**

**1. Promoting a culture of entrepreneurship**

A business must encourage a culture of entrepreneurship that allows employees to create and come forward with new ideas to improve the business. To achieve this, the distinction between employees and management should be small. The business must evaluate ideas to see whether they are feasible and must support the employees by making the required resources available for feasible ideas.

**2. Participative decision-making**

**3. Identify and deal with risk**

**4. Managing union activities and strikes**

**CHALLENGES IN THE MARKET ENVIRONMENT**

**1. Consumer preferences**

Changes in society influence consumer's buying habits and preferences

### How are consumer's preferences affected?

2. **Consumer related** – main source of concern for the business operations should strive to best satisfy needs of consumers.  
**Consumerism** – brings pressure of unsafe goods; the business should refrain from manufacturing and selling unsafe goods; keep business practices sound and within legal parameters.  
**Spending patterns** – have changed because of the increased employment of women; businesses in rural areas due to urbanisation are faced with a decrease in demand; and the growing **teen** market → different spending patterns.
  
3. **Competition**  
 Trademark preferences play an important role, with regard to products for young people, cars and technology.  
 Low import tariffs have resulted in increased imports at lower prices  
 Huge presence of shopping malls have changed consumer's preference to shopping areas and they also offer modern displays and entertainment areas.
  
4. **Supply of resources**

### CHALLENGES IN THE MACRO ENVIRONMENT

1. **Political challenges** – redressing past imbalances, businesses have to employ previously disadvantaged individuals (PDIs), e.g. women and people with disabilities. Businesses have to contribute to the skills development programmes.
  
2. **Contemporary business legislation challenges** – business must protect consumers; obtain quality products at affordable prices; labour force not treated fairly; unsafe working conditions.  
**Acts passed in Parliament since 1996 to protect:**
  - Agricultural labour act
  - Basic conditions of employment act
  - Employment equity act
  - Labour relations act
  - Protected disclosures act
  - Skills development act
  - Promotion of equality and prevention of unfair discrimination act
  
3. **HIV/AIDS challenges** – negative impact on productivity; high absenteeism; losing skilled workers; retraining  
**Steps that can be implemented by businesses to monitor HIV/AIDS include:**
  - Formulate a strategy to address the threat of HIV/AIDS
  - Establish workplace awareness

- Encourage openness in workplace - feel free to disclose status
- Provide voluntary HIV-testing in workplace
- Make use of educational programmes
- Motivate peers to counsel each other
- Get HIV counsellors to visit the business
- Monitor absenteeism and follow it up
- Create a positive environment
- If possible provide free treatment

**4. Technological changes** – loss of jobs; production of dangerous gases/nuclear weapons

**5. Social responsibility** – business needs to consider the impact it has on employees, clients and society.

Employees – business pays benefits to employees, e.g. assist with housing and bursaries.

Clients – right to safety, right to be informed, freedom of choice, right to be heard.

Society at large – business can fund educational, cultural, scientific and social institutions.

## CONTROLLING THE MICRO ENVIRONMENT

**RECALL:** The micro environment is the centre of the business enterprise – it is under the direct control of management. We say that the business can influence its internal environment by the decisions that are made by its managers.

Controlling the business objectives

Controlling the production factor

Controlling the business functions

Internal control – control consciousness, risk assessment, information and communication, monitoring

## CONTROLLING THE MARKET ENVIRONMENT

**RECALL:** The market environment lies immediately outside the business. This environment is very important to management because each element of the market environment presents both opportunities and threats to a business. We say that the market environment has a direct influence on the success or failure of a business.

Influencing customers

Influencing suppliers  
 Managing competition  
 Using intermediaries

### GAINING A COMPETITIVE ADVANTAGE

A business has **COMPETITIVE ADVANTAGE** when consumers regard the product or service the business offers as better than the competitors' products or services. In other words the business satisfies consumers better than competitors.

#### ACTIVITY:

- a) What competitive strategies can a business use to gain an advantage over another business?

### CONTROLLING THE MACRO ENVIRONMENT

**RECALL:** The macro environment is the environment that surrounds the micro and market environments. This environment has a direct influence on business enterprises. The individual business has very little or no control over the macro environment.

Discuss how the business can control the following sub-environments of the macro environment. Make notes on your workbooks:

**Technological, economic, social, physical, political and international.**

### TOPIC 3 ADAPTING TO CHALLENGES IN THE BUSINESS ENVIRONMENT

#### INFORMATION MANAGEMENT

How all data and information – both physical and electronic – in an organisation is controlled and stored.

- **information is an essential tool that helps the business manage its environment**
- **Info has to be properly managed so that the data is available when needed**

#### STRATEGIC RESPONSES

**The ways in which business leaders react to important events in the business environment.** Management need to use available data to react to changes in its environment in the best way possible. Three possible strategic responses can be:

- **The business can expand its market share**
- **It moves into a new market**
- **It improves its ability to produce output**

A business can use the following methods to expand.

### ***Mergers, acquisitions, takeovers and alliances***

- ***A merger happens when 2 firms, often of about the same size, agree to combine and a new company is formed.***
- ***An acquisition occurs when one company buys another business and clearly establishes itself as the new owner.***
- ***A takeover occurs when one business is bought out by another. We call the buy-out a hostile takeover when the management of the target business does not want the takeover to take place.***
- ***An alliance occurs when businesses form a relationship by entering into a contract in which they collaborate on a certain issue. The businesses remain independent.***

By using these methods, the business:

- **Adapts to changes in the external environment and acts upon that change to create new opportunities for the business to expand**
- **Gains the advantage that the best aspects of each business can be used to create a new firm with a larger target market and greater ability to produce a larger variety of goods and services**

### **ORGANISATIONAL DESIGN AND FLEXIBILITY**

**The process of reshaping the structure of all the different parts of the business so that they are all aligned with the overall strategy of the business.**

Various organisational designs have been developed to allow flexibility.

- **Some designs have few rules and regulations and allow managers a lot of room to use their discretion when the environment is uncertain**
- **Others are more rigid, and are used when the business is fairly certain**

### **DIRECT INFLUENCE ON THE ENVIRONMENT**

Businesses can influence their own environment by:

- **Introducing new products**
- **Launching advertising campaigns to target a wider market**
- **Opening new branches**
- **Signing contracts with suppliers of longer or shorter terms than usual**
- **Initiating negotiations with trade unions**

Businesses are also directly influenced by changes in legislation, technological innovation and actions of their competitors. Businesses need to take advantage of these, e.g.:

- **Online publishing**
- **Downloading e-books in store**
- **in-store bakeries**

- **Restaurants in supermarkets**
- **pharmacies in supermarkets**

Businesses also need to be aware of the influence of problems in the natural environment. They have to consider opinions of customers about measures to protect the environment. As a result, businesses may:

- **use renewable sources of power**
- **initiate power-saving methods**
- **implement ways to save water**
- **use non-toxic cleaning materials**
- **consider organically grown products**
- **adopt ways to reduce the effects of climate change**

### **SOCIAL RESPONSIBILITY**

Businesses have to be aware of the problems in the social and natural environments in which they operate. Customers expect businesses to have social-responsibility programmes that show that the company takes responsibility for its effects on the environment and is attempting to improve the social welfare of people in the area. These initiatives create social goodwill for the business, e.g.:

- **donations to community upliftment programmes**
- **supporting**

### **LOBBYING**

This is a means of exercising control over the macro-environment. It is the practice of **trying to persuade or influence someone in authority to support laws or rules that will give your business or industry an advantage**. It is a group's effort to promote or secure a particular legislative outcome. The taxi industry, e.g., successfully lobbied the government and this resulted in:

- The taxi recapitalisation scheme where the state financed new vehicles
- Taxis being exempt from toll charges.

### **Influencing supervisory body and regulators**

There are a large number of supervisory bodies and regulators who control the business environment, and businesses have to keep to their rules in order to stay in business. Businesses can, however, lobby supervisory bodies by negotiating for changes in the regulations they feel are necessary. E.g.

- **National Credit Regulator**
- **Advertising Standards Authority of South Africa**
- **Estate Agency Affairs Board**
- **National Energy Regulator of South Africa**
- **Financial Services Board**
- **Competition Board**



## **HEDGING AGAINST INFLATION**

Hedging is a method used by businesses:

- **To try to reduce risk when they are unsure about possible price fluctuations**
- **By which it can reduce potential loss**

Methods that can be used by businesses to reduce the effect of inflation include:

- **Signing long-term contracts at fixed prices**
- **Finding new sources of inputs where the business can control the prices**
- **Adopting an aggressive advertising and marketing campaign so that any price increases will be more readily accepted by customers**
- **Buying the goods they need ahead of time**
- **Investing in a way that grows faster than inflation such as in gold and property**

## **BARGAINING BETWEEN MANAGEMENT AND TRADE UNIONS**

The Labour Relations Act allows for bargaining or negotiation between employers and trade unions in order to:

- **Prevent the breakdown in relations in the future**
- **Agree to any future wage increases**
- **Protect a business against losses during a strike or go-slow**

## **NETWORKING**

Useful way to learn what is happening in the market environment. Networking involves a group of individuals or organisations who voluntarily exchange information. It involves making new contact with different people at different levels to share information that will be helpful in making future business decisions. They can also gain support when representation to various authorities is planned. Benefits include:

- **Exchanging new ideas and info**
- **Developing and building new business relationships and contacts with other professionals**
- **Exchanging advice on problems being experienced**
- **Finding new customers in the community**
- **Ensuring that market info reaches businesses quickly**
- **Building on the marketing and expansion of an organisation**

Networking groups meet regularly to exchange ideas, help one another, and to give and get advice. Many business managers join organisations such as the various chambers of commerce and business clubs, including:

- **South African Business Network**
- **Business Network International**
- **LinkedIn**

## **POWER RELATIONSHIPS**

Setting up relationships with other businesses can have a beneficial effect on the future of a business. Exists where the parties involved operate from a position of power. Government exerts legislative control, while business drives the economy. Both parties must work together to achieve their own goals.

### **Strategic alliance agreement**

**An arrangement between 2 companies that have decided to share resources in order to undertake a specific project.**

Each company maintains its independence while gaining a new business opportunity. The alliance builds on the experience of each partner and on the way in which they complement each other. The agreement helps a company:

- **Develop a more effective process**
- **Expand into a new market**
- **Develop an advantage over a competitor**

e.g. Public/Private Partnerships (PPP).

**A PPP is a contract between a government institution and one or more private businesses so that the private organisation takes responsibility for some of the financial, technical and operational risks of a project.**

e.g. The Gautrain rapid rail link project

Another example of a successful PPP is South Africa's Renewable Energy Independent Power Producer Programme

### **Persuasion of large investors**

Businesses can gain more control over their macro environment by entering into power relationships with the government or even large companies. An example could be when a business is able to persuade a large investor to invest in the business, such as Walmart buying 51% of Massmart (company which includes Game, Makro, etc.). Further investment may mean that a business is able to:

- **Expand its operation**
- **Get credit more easily**
- **Get better deals from suppliers**
- **Encourage other investors in the future**

### **Influence of company representatives**

**A company representative is a person chosen by a business to act on its behalf in negotiations. They represents that company's vision, image, products and services. Many businesses often have influential people on their boards of directors so that the association with that person can have a positive influence on the image of the business.**

<p><b>1. Give 3 strategic responses that can be made by a business.</b></p>
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2. Distinguish between networking, hedging and lobbying.
3. Explain why it is important for businesses to negotiate with trade unions about wage demands of workers.
4. The Mazda Wildlife Fund supports 30 conservation projects by donating vehicles for their use. Explain why Mazda has done this and the benefit it has for the company.
5. Give 4 advantages of a merger for 2 companies.

## EXTRA NOTES

### Black economic empowerment (BEE)

An integrated socio-economic process whose purpose is to redress the imbalances of the past, viz inequality of wealth and income, by seeking to transfer the ownership, management and control of South Africa's financial and economic resources to the majority of its citizens. The aim of BEE is to ensure a broader participation in the economy of black people to achieve sustainable development and prosperity.

BEE is required by law.

#### Questions:

1. What is the difference between BEE and Broad-base black economic empowerment?
2. What do you think will happen to a business that does not implement BEE?
3. What can a company gain by implementing BEE?

### Empowering employees

- Today's workers are more knowledgeable, sometimes even more than those who manage them.
- Managers therefore need to transform themselves from bosses into team leaders and should focus more on motivating, leading and planning.
- Managers could improve quality, productivity and commitment from employees by increasing their participation in the decision-making process – this is referred to as empowering employees.

### Employee empowerment

BEE – ensures that groups disadvantaged by Apartheid are also empowered by transferring ownership, management and control of South Africa's financial and economic resources to the majority of its citizens

Employee Empowerment	
Adaption by business	Benefit to business

-skills development and training needs to be implemented on an on-going basis to ensure the empowerment of employees -businesses need to put processes in place to ensure that BEE is carried out when employing and promoting people	-structured empowerment processes can lead to greater efficiency, productivity and employee motivation -BEE results in a more representative workforce that is more in tune with the range of customer's needs and wants
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**Lobbying**

Lobbying	
Adaptation by business	Benefit to business
-businesses must constantly be aware of changes in the environment and where they are able to influence decision-makers -businesses should establish suitable and effective representatives for the lobbying process to be successful	-businesses are able to influence supervisory regulators, shareholders and stakeholders -company representatives will influence relevant agencies -bargaining sessions can be facilitated between management and unions -investors can be persuaded to commit funds Businesses are able to form strategic alliances through contracts -team-building can be facilitated

**Networking**

Networking	
Adaptation by business	Benefit to business
-businesses need to create opportunities for management and employees to network with other businesses -businesses need to ensure that their employees and management are up to date with the latest methods of electronic networking	-networking can influence customer behaviour -businesses can become aware of their competition -businesses are easily able to create product awareness and a market for new products -they are able to gain ideas from other people and find new customers -by networking businesses can try to predict how inflation will affect the business and what precautions to take

**TOPIC 4 CONTEMPORARY SOCIO-ECONOMIC ISSUES**

## UNIT 1: THE IMPACT OF CONTEMPORARY SOCIO-ECONOMIC ISSUES

Key socio-economic issues facing South Africans today are

### **Income levels**

Distribution of income among in SA is very uneven. In 2011 the situation was:

- the wealthiest 10% of the population share 45% of the total GDP
- the poorest 10% of the population share 1.3% of the total GDP

The impact of low levels of income mean that:

- **many households can't afford to buy a variety of goods and services**
- **markets are limited (especially for more expensive items such as motor vehicles, electrical appliances and housing)**
- **profits are low**
- **small local markets result in a need to develop export markets**
- **savings levels by individuals are low so there is a shortage of money in banks to invest in new businesses and the expansion of existing companies**

### **Inflation**

**The increase in the prices of a wide range of goods and services over an extended period of time.**

The impact on business is that, as prices increase so the cos of production goes up, with the result that:

- **profits are reduced**
- **businesses increase their prices**
- **consumers (especially the poor) buy less**
- **prices of exports go up and export markets can be lost**
- **workers demand higher wages, further increasing cost of inputs**

### **Changes in population size**

Increases in population lead to greater need for schools, housing, transport and hospitals. A greater demand for goods and services stimulates the growth of businesses, employment and profits. There is often a shortage of infrastructure.

### **Social and cultural issues**

- **the effects of HIV/AIDS have been enormous: many people have died, leaving large numbers of dependants who need to be supported by welfare programmes**
- **globalisation and modern technology in communication – such as the Internet and cellphones – have caused great changes to all aspects of life**
- **social networking sites are gaining in influence**
- **the movement of people to other countries has caused the spread of different cultures**

The impact on businesses:

- **HIV/AIDS cause the loss of skilled workers**

- **Businesses spend money on HIV-awareness programmes**
- **Globalisation is promoted by modern communications and transport systems. New skills in network engineering and software development have emerged**
- **Social networking sites have millions of members and are used by businesses to promote their products**
- **New businesses that are based on cultural differences, including restaurants and fashion lines, have started**

### **Economic crime**

**Illegal acts committed by individuals for personal gain, and include cybercrimes, tax evasion, credit-card fraud, bank fraud and money laundering, corruption, mismanagement of funds and identity theft.**

The impact on businesses:

- **Dishonesty undermines the good reputation of a business**
- **Businesses such as banks have to spend large amounts on security and insurance**
- **Crime leads to losses by businesses**
- **Increases in the cost of production means that customers have to pay more**
- **High rates of economic crimes give the country a bad reputation among investors and reduce the amount of foreign investment in the country**

### **Ethical misconduct**

**Happens within the business and means acting in a way that is against the company held morals. Examples vary from making private calls during office hours, bullying and sexual harassment to acts of a criminal nature, such as corruption, accepting bribes and mismanagement of funds.**

The impact on businesses:

- **This behaviour has a negative effect on the business and especially on the morale of the employees**
- **It leads to a drop in productivity**
- **Valuable time is wasted by management in dealing with these problems**

### **Sexual harassment**

**This is unwanted, unwelcome, uninvited attention of a sexual nature in the workplace. It is a display of power intended to intimidate or degrade another employee. It includes any type of sexual behaviour that makes an employee feel uncomfortable, including unnecessary physical contact, touching, unwelcome jokes, rude gestures, unwanted sexual questions, sending unwanted e-mails or text messages with sexual contact, and physical assault.**

**It is a violation of human and trade union rights and dignity. It lowers the morale and negatively affects productivity and employee turnover.**

Corruption and mismanagement of funds

**Dishonest activities in which a person entrusted with authority in a business, acts contrary to the interest of the business and abuses his or her position of trust in order to achieve some personal gain.**

**It undermines business and negatively influences investment. It could cost the business a lot of money or even cause it to fail.**

**Illiteracy and lack of skills**

**This is when adults can't read and write. Low literacy and numeracy skills in adults and even school children reduces their ability to be employed.**

The impact on businesses:

- **Businesses are severely hampered when there are too few people with technical and scientific skills**
- **A lack of skills results in low levels of productivity**
- **Many businesses have to operate in-service training schemes in order to develop the skills they need**

**Problems with natural resources**

**Natural resources are not evenly spread across the world, so countries that do not have a necessary resource have to import it or find an alternative.**

- **Exhaustion of natural resources: Resources available to us are gradually being used up so they have to be used carefully. Due to population increases, there is an increasing demand for resources such as water, power and crude oil.**
- **Unavailability of natural resources: When some resources are not available in an area the economy is negatively affected.**
  - **Resources have to be obtained from another region, e.g. water is moved from KZN to the Vaal Dam in Gauteng**
  - **New technology is developed, e.g. SASOL extracts oil from coal**
- **Inefficiency in the use of resources: All resources need to be used carefully and in a sustainable way**

The impact on businesses:

**Businesses are severely hampered by a shortage of resources such as power and water. Businesses develop new technology in order to substitute scarce resources. E.g. harnessing solar power, plastics instead of wood, optic-fibre cables for communication, desalinating seawater to make fresh water, and inventing artificial fibres for clothing**

**Dumping**

**Practice in international trade where goods are sold on a foreign market at prices below that in the country of origin. Exporting businesses do this to get rid of a surplus or to capture a new market.**

The impact on businesses:

- **Local industries lose their markets because of the lower-priced imports**
- **Dumping leads to a loss of profits and even the closure of firms, with an accompanying loss of jobs**
- **Businesses are forced to produce their goods more efficiently**
- **Consumers have access to goods at a reduced price**

### **Piracy**

**Illegal copying or use of a book, recorded music, film, television programme, software program, patented invention or trademarked product**

The impact on business is that the rightful owners lose profits that are due to them.

### **Strikes**

The impact on businesses:

- **Strikes lead to a drop in output and, as a result, profits are reduced.**
- **Relations between management and workers are negatively affected.**
- **Violence associated with strikes often results in damage to property and infrastructure.**

**UNIT 2: POSSIBLE SOLUTIONS TO SOCIO-ECONOMIC ISSUES**







UNIT 3: DEVELOPMENTS IN INDUSTRIAL RELATIONS







**TOPIC 5 BUSINESS SECTORS****UNIT 1: LINKS BETWEEN ECONOMIC BUSINESS SECTORS****REVISING PRIOR LEARNING:**

All businesses fit within one or another economic business sector. Think of your school jersey. How many different businesses do you think were involved in its production?

1. Identify the THREE economic business sectors (labelled A, B and C).



2. Use the Table below to differentiate between the THREE economic business sectors

Sectors	Productive activities
Primary sector	<ul style="list-style-type: none"> <li>• Agriculture</li> <li>• Mining and quarrying</li> <li>• Forestry</li> <li>• Fishing</li> </ul>
Secondary sector	<ul style="list-style-type: none"> <li>• Manufacturing and processing</li> <li>• Construction</li> <li>• Utilities such as electricity, gas and water</li> </ul>
Tertiary sector	<ul style="list-style-type: none"> <li>• Trading activities, e.g. wholesalers, retailers, accommodation and catering</li> <li>• Personal services, e.g. medical</li> <li>• Educational, health and lifestyle sectors</li> <li>• Financial services, e.g. banking, insurance and real estate</li> <li>• Transport</li> <li>• Communication and information technology services</li> </ul>

### LINKS BETWEEN THE SECTORS OF THE ECONOMY

Although we have three separate sectors into which all economic activities are divided, it does not mean that these sectors are independent of one another. The division is simply to make matters easier when economists and other interested parties wish to identify issues. In reality these sectors are completely interdependent on each other.

The secondary sector is dependent on the primary sector for the raw materials that are processed into more useful products. It also relies on the tertiary sector for the provision of a variety of services. In turn, the primary sector is also dependant on the secondary sector for manufactured goods such as machinery, equipment, fertilisers and pesticides and also from the tertiary sector for its consumer needs and a variety of other services. The tertiary sector is also dependant on the secondary sector for manufactured goods such as office machines, office furniture, stationery, etc.

Businesses within a sector are dependent on other businesses within the same sector. In the primary sector for instance, there are farmers who need seed and food stock produced by other farmers. In the secondary sector there are manufacturers of components that are used by other manufacturers in their final products, e.g. the manufacturers of CD ROMs, display screens, graphic cards, mother boards, hard drives etc. provide to the manufacturers of computers. In the tertiary sector we find that



retailers are dependent on wholesalers for the supply of their stocks, and also the various services of transport, communication, financing, insurance and advertising are provided not only to the primary and secondary sectors, but also to businesses within the tertiary sector.