

TOPIC 2: BUSINESS AND ITS ENVIRONMENT

By the end of the topic, the learner should be able to:

- a. Explain the meaning and purpose of a business
- b. Identify various business activities
- c. Identify various types of business environments
- d. Explain how the various business environments influence a business.

Meaning of a business

This refers to any activity carried out by an individual or by an organization with the aim of making a profit.

Profit is what the business earns above what it spends in providing goods and services to the people who need them.

The term **business** also refers to firms or organizations that provide goods and services to make a profit.

Purpose of business (Reasons for the existence of businesses)

Business is important in any society because it is not possible for people to provide themselves with all what they need without direct or indirect aid from others. Some of the main reasons why businesses exist are:

- i) **To provide goods and services**-Businesses exist to satisfy the needs and wants of buyers by providing them with goods and services. Buyers include individual consumers, other businesses and the government.
- ii) **To create employment**-Businesses provide job opportunities through which members of society can earn money, which can be used to buy goods and services for the satisfaction of their needs.
- iii) **To earn profit**-Profit is the primary goal of carrying out business operations. It is earned by the people who put their resources and effort in business
- iv) **As an outlet of new innovation**-Some businesses provide unique goods and services which may not be existing in society e.g. plastic fencing poles that are now replacing wooden poles.

- v) **To be as own boss**-Some people run businesses so as to be in full control of the operations and make all the decisions regarding the business without need of reference to people.
- vi) **To utilize extra resources**-Some people go into business to make use of money or property which is not being put to profitably use at a given time.
- vii) **To offer special services**-Some businesses provide services that raise the living standard of people e.g. government enterprises that provide public utilities such as health care and water.
- viii) **To utilize spare time**-Some people run businesses in order to make use of extra time at their disposal and in the process make some extra money. A large number of formally employed people have small business which they run during their free time in order to earn more money.

NB: Whatever purpose a business fulfills, it has to earn a reasonable return on the invested money to survive.

TYPES OF BUSINESS ACTIVITIES

People carry out different business activities in order to earn income.

Business activities are activities which involve the provision of goods or services with an aim of earning a profit.

Activities done without the intention of making profit are referred to as **non-business activities**. Business activities may be grouped into the following seven categories:

a) Extraction

This involves obtaining goods from their natural setting e.g. mining, farming, lumbering, fishing, quarrying e.t.c

b) Processing-This involves the conversion of raw materials into more useful products without combining it with other goods.

Examples here include milling/grinding flour, refining oil, tanning of skins and hides, conversion of iron into steel e.t.c

c) Manufacturing-This involves combining different raw materials to come up with one final product. Such activities include bread baking, making a table e.t.c

- d) **Construction**-This involves building of structures such as bridges,ships,aeroplanes,houses,roads,railwayse.t.c
- e) **Distribution of goods**-This refers to the activities involved in moving goods from where they are produced to where they are needed. People who carry out distribution are called **distributors**. Examples of distributors are **wholesalers and retailers**.
- f) **Trade**-Activities in this category involve the buying and selling of goods with a view of making a profit. People involved in trade are called **traders**.
- g) **Provisions of services**-Activities in this category involve human acts which could be mental or physical. These include activities such as hair-cutting, hair styling, car-washing, nursing, teaching, driving, and entertaining e.t.c.

NOTE: Students to give examples of activities they pay money for which are not goods.

BUSINESS ENVIRONMENTS AND THEIR EFFECTS ON THE BUSINESS

Business environment refers to conditions or factors which surround and affect business operations. These factors could be within the business (**internal environment**) or from outside the business (**external environment**).

These factors affect the decisions, strategies, processes and overall performance of the business.

Activity: Discuss some factors that have a strong influence on businesses within the immediate environment.

Internal Business Environment

This comprises factors that are within the business unit itself. These factors can be controlled fully by the business. Internal environmental conditions could be either strength or weaknesses. The strengths tend to improve the performance of the firm while weaknesses tend to affect the operations of the business negatively.

Internal environment is also referred to as: **micro-environment**. Micro environmental factors include:

1) Objectives of the business

These are targets or goals that are set by the owners or managers of a business to be achieved. The objectives will influence the following;

- a. **The strategies of a business**-This is a plan of action which a business intends to follow so as to achieve its goals.
- b. **The resources required**-By studying the objectives set; a business can determine the resources required for its effective operation. These resources may be physical, financial, humane.t.c

2) Management policies and style

The management refers to the people who are responsible for directing the day-to-day operations of a business. It is the management that sets the objectives and policies of an organization. A policy is a course of action for achieving set objectives, which is adopted by a business.(it is the established way of doing things in a business.

- a) **The policies of a business**-The policies adopted by a business may boost or hinder its growth and survival e.g. the management may decide that workers will not be allowed to join trade unions. This may make the workers feel locked out of the decision-making process, resulting in tension. This tension may interfere with the performance of the employees and result in inefficiency.
- b) **The activities of a business**-Management policies will determine the activities of a business i.e. the goods and services provided, location of business e.t.c.
- c) **Management style**-This refers to how managers conduct the daily operations of the business. This will determine how workers relate with their managers. The style adopted by the management will influence the workers performance positively or negatively thus affecting the overall performance of the business.

3) Business structure

This is the formal arrangement of activities that are carried out at various levels of the organization so that objectives of the business can be achieved.

Duties and responsibilities of all the workers are defined in the business structure. Their interrelationships are also defined.

A well laid out business structure is likely to lead to success of the business since:

- i. Each of the employees know what is expected from them
- ii. There will be no conflicts or confusion among the workers
- iii. Team work is enhanced
- iv. Ensures proper control which in turn promotes efficiency.

A poor business structure leads to business failure.

4) Business Resources

A resource refers to anything that can be used to achieve an objective.

These resources include;

- a. **Human resource**-Human resource (personnel) refers to the employees working in an organization. Employees will only be useful if they have the necessary knowledge and skills to successfully carry out the assigned tasks. It is therefore necessary for the management to match the correct people with the correct job activities; this will ensure success for the business.
- b. **Financial resource**-Money is required in order to start and operate a business. A business with adequate finances that are properly allocated to various activities and also monitored is likely to do better than the one lacking such aspects.
- c. **Physical resources**-These include tangible facilities which belong to the business such as buildings, machinery, furniture and stock. Availability of such facilities enables the business to operate.
- d. **Technology**-This refers to skills and methods used in production. Use of modern technology enhances production of goods and services.

5.) Research and development

Research and development is an important factor for the success of a business. Research generates new ideas, skills and better methods of doing things.

A business has to do market and consumer research regularly to find out how the consumers perceive its goods and services, and how they can improve in order to outdo their competitors.

Research also assists in the development of new and unique goods and services that may attract new consumers or maintain the loyalty of the existing ones.

6.) Business culture

This is a combination of employees expectations, beliefs and values within the business. It is normally passed on from one generation of employees to the next. Employees acquire norms and code of conduct that is acceptable to all from the general manager down to the sweeper. A business that has a culture of involving employees in decision-making may perform better than one that does not involve its employees.

7. Owners

The owners of the business provide finances/resources to start and run the business. They also make decisions concerning operations of the business.

Appropriate decisions are likely to lead to well being of the business while poor decisions may adversely affect the business

External Business Environment

This environment consists of all the factors which affect the operations of the business from the outside. Some of these factors offer business opportunities while others may create problems (threats).

Business have limited or no control over external environmental factors and should therefore try to do adjust in order to cope with them.

External environmental factors are also referred to as **macro-environment i.e.** environment that is in large scale.

External business environment can further be sub-divided into **operating environment** and **remote environment**, depending on

whether the factors can be influenced to some extent or not. Those environments that can be influenced are referred to as **operating environment** while those that cannot be influenced are known as **remote environment**.

External environment include

- i. Technology –better technology will lead to better quality and quantity of goods yet poor technology will lead to inefficiency, poor quality and low quantity of goods.
- ii. Legal-political environment. The laws that government passes either enhance or discourage business growth. Peace and security ensures safety of business investment, property and that of employees.
- iii. Cultural environment- culture of a place dictates what is to be produced and consumed eg pork business cannot do well in a muslim dominated area.
- iv. Demographic environment- it refers to population changes. The aspects of population that affect business include population size, age, sex, distribution, structure, birth and death rates. A large population increases market for consumer goods.
- v. Economic environment- includes incomes, interest rates and inflation. High consumer incomes increase consumers' purchasing power.
- vi. Physical environment- availability of physical environment such as climate, infrastructure eg roads, electricity, water etc favours business growth.

