

The Business Environment



1. Outline what is meant by the external business environment.

The external business environment refers to the range of factors that can influence the operation and performance of a business. The business has limited control over these factors. The external business environment includes such things as laws, regulations, social and cultural influences and changes in economic conditions.

2. Describe the business cycle. Outline the different characteristics of each stage.

The business cycle describes the phases that economies generally go through. These include accelerating growth, a boom, a sharp slow down called a recession, and then a period of recovery and growth, after which the cycle starts again. The periods of accelerating growth and booms are characterised by strong economic growth, increased consumer spending, falling unemployment, and a tendency for rising inflation. Recession periods are when there are two consecutive periods of negative economic growth. They are characterised by reduced consumer spending, higher unemployment and falling inflation.

3. Discuss the extent to which the following businesses would be affected by the ups and downs of the economic cycle:

a) Motor vehicle repair garage

b) Nursing home

c) Private art gallery

d) Funeral home

e) City hotel

a) In recessions people are less likely to use cars and spend money on petrol, so there would be fewer cars in need of repair. In high growth periods there may be a rise in people driving, causing a rise in traffic accidents and generating more business.

b) Health is typically one of the last items on which consumers will reduce spending. However, in a recession families may encourage their older relatives to live with them as accommodation in a nursing home may prove to be too expensive.

c) In boom times consumers will have a lot of “spare income to spend on luxury goods such as high priced art, while in recessions many people will choose to spend their limited discretionary income on other items. Thus a private art gallery relies on the upswings of the economic cycle for ongoing business success.

d) Consumers will be more willing to spend more money on the funerals of loved ones in a boom time when their income is high and they are not worried about future income. In a recession, families will be less likely to pay for extravagancies.

e) In boom times consumers will have a lot of “spare income to spend on tourism and stays in luxury hotels, while in recessions many people will minimise their spending and avoid staying in these hotels.

4. Summarise the main ways in which governments can influence the business environment.

Governments at all levels play a major role in influencing the external business environment, both directly and indirectly through their ability to make laws that govern business and consumer behaviour. The Commonwealth Government influences the economic environment through their monetary and fiscal policies, as well as their microeconomic reforms. State governments exert influence through setting legal requirements that business have to comply with such as occupational and health and safety rules; levying taxes such as stamp duty, and enforcing fair trading laws. Local governments exert minor influence through their control of land zoning, building controls and development applications.

5. Examine which part of the external business environment the following would represent:

a) stringent new rules on raising capital announced by ASIC

b) a new Code of Practice introduced by the Telemarketing Industry Association

c) a sudden surge in the popularity of flared jeans

a) This represents the effect that regulatory bodies have on the external business environment by regulating and enforcing the legal environment in which business operate.

b) This represents the effect that non-government organisations have on the external business environment. These industry associations can influence the behaviour and policies of their member businesses.

c) This represents the effect that changing consumer tastes can have on the external business environment. Businesses have to adapt to changing demand conditions in order to retain customers.

6. Choose a business that you have studied or in your local area. List three government and two non-government agencies that might influence the environment for this particular business. Describe what these influences would be.

McDonalds

Government Agencies:

ASIC

ATO

ACCC

Non-Government Agencies:

ACA

Trade Unions

Of the government agencies, the ATO influences McDonalds by forcing them to deduct tax from the wages of their employees, as well as paying GST. The business must have good administrative practices to ensure that it is fulfilling its legal requirements in these areas. ASIC would influence the business by ensuring that the business files their annual returns, and that they comply with the Corporations Act 2001. The ACCC would also influence the business by overseeing that the corporation complies with the Trade Practices Act 1974.

Of the non-government agencies, trade unions could pose problems for the business by influencing its labour force to take industrial action, such as a strike or work to rule, if they feel that their working conditions are lacking. The ACA could, in its publications, provide consumers with negative reviews of McDonalds' products or lobby governments to influence the legislation that regulates McDonalds advertising campaigns.

7. Explain the benefits membership in an industry association or employer group can give a business.

The advantages of joining an industry association include having a strong, collective lobbying power, having access to industry-specific information, and being able to share knowledge about objectives relating to tax and other legal issues that can affect profitability. A business that belongs to an employer group has the benefit of having representation of their interests in industrial relations forums and assistance in complying with industrial relations laws.

8. James Parvliet is thinking about starting up a furniture factory in the local area. Write a report providing advice to him about how the business environment will impact on his ability to operate his business.

To: James Parvliet

Re: Furniture Factory Proposal

Introduction

Operating a business requires the owner, or manager, to understand how the factors outside the control of the business will influence its ability to have success. During the planning for your current business proposal the owner/operator must take into account how the external business environment will impact on the operational capacity of the business.

The External business environment

The external business environment contains a range of influential factors over which the business does not have control. At the broadest level, this includes things such as the business cycle and government monetary, fiscal, and microeconomic reform. These external factors will influence the demand of customers for furniture products as well as the ability of suppliers to provide a reliable flow of goods.

Government

Government at other levels will also influence the furniture factory, as the state government will influence the legal environment through its control of occupational and health and safety legislation, workers compensation schemes and payroll tax, all of which will impact the running of the factory because the business will need to employ workers. It will also add to the overall expenses of running the business. Owners must ensure that they include these expenses in their initial plans.

Consumer tastes

Changing consumer tastes will also influence the factory, as there needs to be sufficient demand from customers for the products, or the business will fail. Thus management must be aware of changing consumer trends.

Competition

Competitors have a significant impact on the economic viability of the factory, so management would need to assess the strength, power, and location of all the other furniture factories in the local area.. Thus management must ensure that the product stands out from the competition.

Regulatory and other organisations

Certain regulatory bodies will impact on business operations, such as the ATO, which will require the business owner to follow certain rules about deducting and paying tax on behalf of employees. If the business becomes incorporated, ASIC will also affect its operations, requiring it to comply with the Corporations Act 2001 and other similar legislation. Finally, non-government organisations such as trade unions could impact upon operations by uniting your employees which would increase costs of production if they demand pay rises or new working conditions.

Conclusion

It is very important that any existing or prospective business owner has an understanding of the external business environment and how it will influence their business operations. In this way the owner will be able to monitor these external factors to ensure that they have minimal impact on their business, and thus see the ongoing success of their business.