

## Business and the Environment

The business transformation process does not take place in a vacuum. Firms operate in a particular context, and they are influenced by and are able to influence this environment.

The business environment can be divided into:

### *The macro-environment:*

- This involves factors outside of the direct control of the business.
- Examples: Economy, government policy and social change
- They can have a significant effect on a firm's success, but the relationship is fairly one way. A change in the exchange rate can affect the ability of a firm to sell abroad; for example, the pound rose in value to nearly 2 dollars in 2007 making UK exports expensive in America. The increasing interest in healthy eating has boosted organic sales. The ageing population has increased demand for healthcare resources.
- However, whilst these macro factors can fundamentally change the environment of an organisation, an individual business can rarely do much on its own to shape them. One firm is unlikely to be able to influence government taxation policy or new legislation, for example. The macro-environment can be analysed using **PESTLE** analysis.

### *The micro-environment:*

- this involves individuals or organisations that a firm deals with on a regular basis. These groups are stakeholders of the business. Examples: suppliers, distributors, competitors, customers, publics and employees.
- They all have a direct interest in the activities of the firm and are clearly affected by its actions. Managers regularly interact with others in the micro-environment and their decisions have a direct effect on them e.g. a decision to expand may mean an increase in supplies, an increase in overtime, more deliveries and greater profits.
- At the same time these stakeholder groups can have a direct impact on the firm. Examples: Labour shortages in the local labour market may make it more expensive to recruit, competitors launching new products may take away market share and changes in customer tastes may require a rethinking of the marketing strategy. Delays by suppliers may lead to cash-flow problems and problems with distributors may hit sales.
- The microenvironment therefore often plays a critical role in the success and behaviour of a business.

**Source:** Kotler, P., & Armstrong, G. (2012). *Principles of Marketing (14<sup>th</sup> ed.)* [Chapter 2, pp 60 – 87; Chapter 3, pp88 – 119]. Singapore: Pearson.