

**CHALIMBANA UNIVERSITY**

***Integrity. Service. Excellence*.**

**SCHOOL OF BUSINESS AND ENTREPRENEURSHIP**

**DEPARTMENT OF ENTREPRENEURSHIP**

BUSINESS ENVIRONMENT

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**Business Environment**

**UNIT 1**

**1.1 Objective**

The learner should be able understand and demonstrate the importance of business environment to the business and explain the various effects of the elements of business environment with a view of highlighting mitigation measures to the various elements.

**1.2 Introduction**

Business environment consists of external (macro) and internal (micro) factors that influence a business. The external environment is made of political, economic, social, technological, legal and ecological (PESTLE) factors. The Internal factors are areas from inside the business organization that affect operations, such as organizational culture, organizational structure, and management structure.

**1.3 Definition and characteristics of Business Environment**

The definition of business environment means all of the internal and external factors as mentioned above that affect the company functionality including employees, customers, management, supply and demand and business regulations. Price determination in the business environment is a typical example of characteristics of a business.

**1.4 The Business Environment and its Elements**

It has to be noted that no business operates in a vacuum. Business has to exist and contend with its environment in various ways. The most common type of analysis for external business environment is through the PESTLE analysis, there are six elements that a business must be aware of namely: political, economic, social, technological, legal and environmental.

**1.4.1 The Macro Environmental Elements**

The macro environmental elements are as follows:

**1.4.1.1 Political environment and Business**

This involves the influence a local government might have on the business environment. Ordinarily it may focus on new business regulations in areas such as tax administration and adjustments in customs duty to mention a few. This could also include fiscal policy of the government as an important part in the determination of which industries receive the most government support. Other issues include any tariffs the government may impose on certain industries.

**1.4.1.2 Economic Environment and Business**

These are factors whose concern is economic performance in the area in which a company operates. It influences business operations through fluctuations or changes in interest rate, exchange rates, inflation and competitive environment. It basically entails the business organisation answering the following questions: Is there a rise in inflation that the company should worry about when they consider future running costs of the business? Who is the competition? What models can they adapt to analyze the demand and supply? Other things to critically consider include interest rates, the purchasing power of the consumers and foreign exchange.

**1.4.1.3 Social Environment and Business**

Social factors are normally concerned with cultural aspects such as norms, beliefs and values. These influence business based on various psychological factor such as perceptions, religion and other motivation factors that influence consumer behaviour. The social factors can influence a business through consumer behaviour due to different aspects of values and beliefs. The business also analyzes aspects of the social environment such as the demographics, the population size and dominant cultural trends that might affect business strategy.

**1.4.1.4 Technological Environment and Business**

Technological factors have been an integral part for businesses to consider, they have gained even more importance recently. They represent the prevalent technological trends in an area and how they can be either beneficial or detrimental to the success of the business. They include such things as the devices owned, the internet and cellular connectivity and any emerging trends in technology that might affect the business’s activities in the future.

**1.4.1.5 Legal Environment and Business**

This poses a huge effect to the business environment as it basically governs the various aspects of operations. The business has to analyze the specific laws that affect the businesses operating in specific area. There are also internal policies that the company may already have adopted for itself, and they will have to be analyzed in relation to the environment they consider operating in.

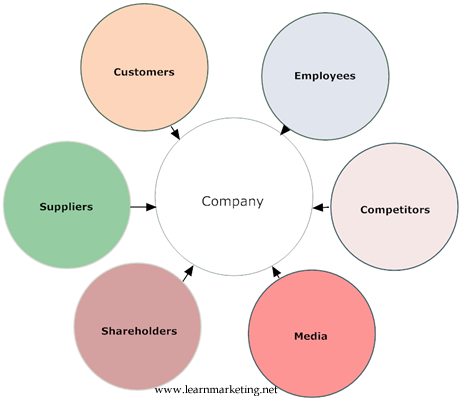
**1.4.1.6 Ecological Environment and Business**

The environmental factors are critical to running a business smoothly. Environmental factors are vital in an increasingly environmentally conscious world. The company has to determine how its practices and location will affect the surrounding environment and take mitigating measures to ensure the environment is preserved.A good example is the carrying out of environmental impact assessment before any mining and milling business in order to protect the environment.

**1.4.1.7 The specific (Micro) Environment Elements**

The micro environment consists of Suppliers, Customers, Competitors, Government and Pressure groups. The micro environment does not affect all the companies in an industry in the same way, because the size, capacity, capability and strategies are different. For example, the raw material suppliers are giving more concessions to large sized companies. However, they may not give the same concessions to small companies due to reduced volumes being purchased. The diagram below depicts the elements of microenvironment elements:

**Figure 1.0: Microenvironment Elements**



When it comes to competition, competitors will not mind about the rival company if it is compared to the small organisations, but he will be very concerned if the rival organisation is large. Sometimes micro environment of the various firms in an industry is almost the same. In such a case, response of these firms to their micro environment may differ as each firm will attempt to achieve a higher success level. The general micro environment factors are discussed below:

**1.5 Micro Environmental Elements**

### 1.5.1 Competitors

The competitive environment is made up of certain basic things which every business has to take into consideration. No matter the size of the business, it does not enjoy monopoly in today’s competitive environment. In the original business world a company encounters various forms of competition. The most common competition which a business faces in its products now is from differentiated products of other companies and the presence of supplementary/complementary products

### 1.5.2 Customers

The influence from customer is the most direct microeconomic impact on a business. The simple fact is that you can't successfully and perpetually operate a for-profit company without attracting targeted customers with a view of continuous improvement. Knowing your ideal customer types and developing and presenting effective marketing campaigns are integral to building a customer base and generating revenue streams.

### 1.5.3 Employees

Employees are critical to business as they produce, sell or service the goods and service that keep the business moving. The availability of technically qualified, motivated employees for a business type is vital to economic business success. If you operate a highly technical business, for instance, you might have to pay more in salary to attract a limited number of available, specialized workers.

### 1.5.4 Suppliers and Distribution Channel

Supplying and distribution channel influences the price of products in a business. Sourcing goods used in production or resale and distributing the inventory to customers are important as well. Manufacturers depend on raw material suppliers and resale companies rely on manufacturers or wholesalers to transport goods. To operate profitably, you need to get good value on products and supplies and, in turn, offer good value to your customers with accessible solutions. As a supplier, you need to have an effective and efficient supply chain.

### 1.5.5 Investors and Shareholders

Shareholders spell out the vision of the company and as investors may help fund in the business, they influence the growth and survival of the business. Shareholders and investors are important to the business as the also provide financial resources as without funds, it would be difficult to build, expand and operate a business. You could look to creditors, but you have to repay loans with interest. By taking on investors, you share the risks of operating and often gain support and expertise. You do give up some control, though.

### 1.5.6 The General Public and Media

Local community and media also affect business in that through consumerism, they are able to influencethe ongoing business image through determinants of consumer behaviour that largely is influenced by personal and family factors. Communities often support companies that provide jobs, pay taxes and operate with social and environmental responsibility. If the business does not do these things, it may run into negative public backlash. Local media often help your story proliferate, for better or worse by disseminating information about the business and at the same time provide feedback through public opinion.

**1.7 Conclusion**

The business environment provides and atmosphere in which a business can thrive and therefore the understanding of the application of all its elements will allow for environmental adaptiveness for business growth and survival.

**1.8 Activity 1.0**

1. Using an organisation of your choice discuss how the macro business environment may affect the operations of the organisation.
2. Explain the importance of micro environmental elements to business.

**Internal Organisational Business Factors**

**UNIT 2**

**2.1 Objective**

This will enable the learner to appreciate and understand different organisational structures and why they exist as such. It will also spell out the different types of organisations and their formation.

**2.2 Introduction**

An organization is generally an organized group of people with a distinct purpose. Organizations are essentially businesses, societies or associations. All organizations have people and management structure that defines relationships between the various operations and the members. The structure outlines the functions, roles and duties assigned to each member, and the authority to perform certain functions

**2.3 Types of organisations**

The different types of organizations include sole proprietorship, partnership, corporation, Limited Liability Company and cooperative. The type of an organization is determined by the form of ownership, the owners’ legal liability and mostly their income tax structure.

Sole proprietorship organization is a form of business owned by a single individual. This is the most basic and easiest type of organization to set up. The owner of a sole proprietor company has unlimited liability, implying that creditors can collect his personal assets in case of payment default. A partnership, on the other hand, is a business owned by a minimum of two people who jointly pull the resources into the investment.

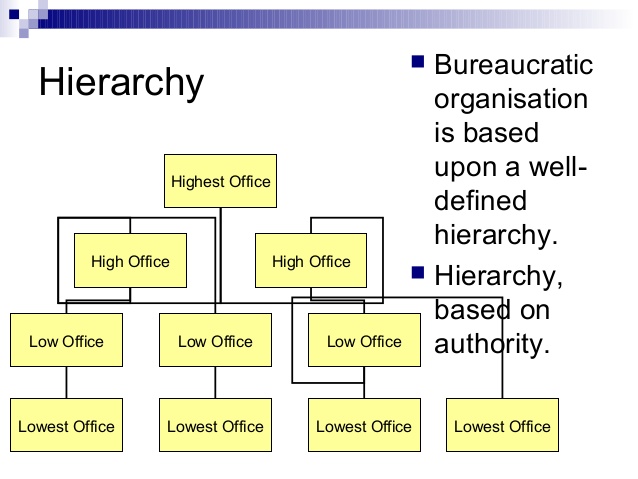
A corporation is a form of business that has a distinct legal personality from its owners. The people with shares (known as stockholders) are the owners of the corporation, but they have limited involvement in the running of the company. Unlike in sole proprietorship and partnership, corporation owners enjoy limited liability. A cooperative is a form of organization owned by a group of people for their mutual benefit. Finally, a limited liability company is a hybrid of corporation and partnership.

**2.4Organisational Structure and Design**

An organisation structure defines our tasks are divided, grouped and coordinated. Anappropriate structure should ensure that tasks occur in the correct sequence. Activities are monitored in the structure through managerial functions such as control that also help in decision making. The nature of organisation structure entails that you cannot have a structure without an organisation.

The source of organisation structure is from a classical management perspective that was contributed by Max Weber a German sociologist as he came up with the Ideal Bureautic Structures. He proposed an organisation structure characterized by division of labour, and clearly defined hierarchy, detailed rules and regulations and interpersonal relations. Despite this theory becoming the model structural design for many large organisations, Weber`s intention was to theorize about how work could be done in large groups. The following figure 2.0 indicates Weber`s bureaucratic structure.

**Figure 2.0 Source: http://www.businessdictionary.com**



**Elements of Organisational Structure/Structural Dimensions**

The elements of organisational structure consist of work specialisation (Division Labour)anddepartmentalization(Horizontal Expansion) as can be observe from figure 2.0. Division of labouris the extent to which organisation task are divided into separate jobs required to attain organisational goals. Departmentalization is the manner or practice in which related individual tasks and their allocation to work group is combined, to form a specialized functional area that is distinct from other functional areas in an organisation.Departmentalization involves dividing an organization into different departments, which perform tasks according to the departments' specializations in the organization. Departmentalization as a means of structuring an organization can be found in both public and private organizations.

**2.5 Types of Departmentalization**

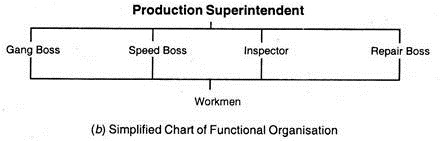
1. **Functional Departmentalization**

In functional departmentalization, an organization is organized into departments based upon the respective functions each performs for the organization. For example, a **manufacturing** company may create a production department, sales and marketing department, an accounting department, and a human resources department. The advantages of the functional departmentalization are the improved coordination of activities and easy understanding of the structure by those involved.

1. **Product/Service departmentalization**

Product/ Service departmentalization is when the organisation is structure by product line or by services offered. Each major product area in the organisation is placed under the authority of an executive who is specialized to do everything with the particular product.This is illustrated in figure 2.1 below:

**Figure 2.1**



1. **Geographical Departmentalisation**

In instance where a company has more than one office, and especially if those offices span the country and the globe, geographical organizational structure makes a lot of sense. It allows business to take what it does well at location A and replicate in location B. Moreover, it could make expansion more likely and efficient. But there are other advantages to organizing your structure by geography such as reduction in transport costs for international operations, units can adapt to different legal, political and economic constraints.

1. **Process Departmentalisation**

This when departmentalization is according to classified processes, that is, activities are grouped by product/service flow. The advantage of is that there is more efficient flow of work activities in process departmentalization and the disadvantage is that it can only be used for certain types of products.

1. **Customer/Market Departmentalisation**

Customer quality assurance and care has become a critical component of a business. Customers represent revenue for the organisation hence they require special considerations in the structuring process. Customer/market departmentalization is grouping by the type of customers the organisation seeks to reach. It is mostly used where the same basic product or service is provided for distinct groups of customers.

**2.6 Organisational Design**

Organizational design is a step-by-step methodology which identifies dysfunctional aspects of work flow, procedures, structures and systems, realigns them to fit current business realities/goals and then develops plans to implement the new changes. The process focuses on improving both the technical and people side of the business. The types of organisation designs are as follows:

1. **The Simple Structure**

Most organisations start as entrepreneurial ventures with a few people then grow to medium and large organisations. A simple structure is an organisational design with low departmentalization clearly indicating that there is no bureaucracy but it has wide span of control with centralized authority.

1. **Functional Structure**

A functional organization structure is a hierarchical organization structure where people are grouped as per their area of specialization. These people are supervised by a functional manager with expertise in the same field. The expert skill or knowledge helps with effective utilization of the employee skills, which ultimately helps organizations in achieving its business objectives.In this kind of organization structure, people are classified according to the function they perform within the organization. The organizational chart for a functional organization structure shows the president, vice president, finance department, sales department, customer service, administration, in that manner.

1. **Divisional Structure**

A divisional structure is an organisational structure made up of separate units or divisions. Each unit/division has relatively limited autonomy, with a divisional manager responsible for performance. The divisional structure of a business tends to increase flexibility, and it can also be broken down further into product, market and geographic structures.

**2.7 Conclusion**

This unit has looked at organisation structure. It is important to note that organisation structure changes with time. The dimensions covered in this study apply to any organisation structure. If structures are effective, achievement of organisational goals and objectives will be more attainable. It is important to check your organisation structure from time to time in order to maintain a level of efficiency.

**2.8 Activity 2.1**

1. Explain the characteristics of an organisation of your choice.
2. Discuss any two organisational structures with valid examples.

**The Social Business Environment and Culture Factors**

**UNIT 3**

**3.1 Objective**

This units aims at providing the learner with adequate knowledge in understanding how social factors such as culture impact on the business environment. The learner will understand how values, beliefs and norms influence the business environment through consumer behaviour.

**3.2 Introduction**

The social business environment consists of the sum total of a society's culture that encompasses beliefs, customs, practices and behaviors. It is, to a large extent, an artificial construct that can be contrasted with the natural environment in which we live. Every society constructs its own social environment due to cultural norms of communities and society that are based on perception and psychological effects on consumer behaviour in the business environment.

**3.4 Cultural factors**

Human behaviour is largely the result of a learning process and as such individuals grow up learning a set of values, perceptions, preferences and behaviour patterns as the result of socialization both within the family and a series of other key institutions. From this we develop a set of values, which determine and drive behavioural patterns to a very large extent. Values include achievement, success, efficiency, progress, material comfort, practicality, individualism, freedom, humanitarianism, youthfulness and practicality. This broad set of values is then influenced by the subcultures like nationality groups, religious groups, racial groups and geographical areas, all of which exhibit degrees of difference in ethnic taste, cultural preferences, taboos, attitudes and lifestyle.

The influence of subcultures is subsequently affected by social stratification or social class, which acts as a determinant of behaviour. Social class is determined by a series of variables such as occupation, income, education and values rather than by a single variable. People within a particular social class are more similar than those from different social classes, but they can move from one social class to other in due time and circumstances. Cultural factors consist of: Culture, Sub culture and Social class.

**3.4.1 Culture**

Culture is the most fundamental determinant of a person`s want and behaviour. The growing child acquires a set of values, perception preferences and behaviours through his or her family and other key institutions. Culture influences considerably the pattern of consumption and the pattern of decision-making.

In business a consideration of social factors such as culture are important as marketers have to explore the cultural forces and have to frame marketing strategies for each category of culture separately to push up the sales of their products or services. But culture is not permanent and changes gradually and such changes are progressively assimilated within society. Culture as explained earlieris a set of beliefs and values that are shared by most people within a group. The groupings considered under culture are usually relatively large, but at least in theory a culture can be shared by a few people. Culture is passed on from one group member to another, and in particular is usually passed down from one generation to the next; it is learned, and is therefore both subjective and arbitrary. Culture can change over a period of time, although such changes tend to be slow, since culture is deeply built into people`s behaviour. From a social environment viewpoint, therefore, it is probably much easier to work within a given culture than to try and change it.

**3.4.2 Sub-Culture**

Each culture consists of smaller sub-cultures that provide more specific identification and socialization for their members. Sub-culture refers to a set of beliefs shared by a subgroup of the main culture, which include nationalities, religions, racial groups and geographic regions. Many sub-Cultures make up important market segments and marketers have to design products and marketing programs tailored to their needs. Although this subgroup will share most of the beliefs.

**3.4.3 Social classes**

Consumer behaviour is determined by the social class to which they belong. The classification of socioeconomic groups is known as Socio-Economic Classification (SEC). Social class is relatively a permanent and ordered division in a society whose members share similar value, interest and behaviour. Social class is not determined by a single factor, such as income but it is measured as a combination of various factors, such as income, occupation, education, authority, power, property, ownership, life styles, consumption, pattern etc. There are three different social classes in our society. They are upper class, middle class and lower class. These three social classes differ in their buying behaviour. Upper class consumers want high-class goods to maintain their status in the society. Middle class consumers purchase carefully and collect information to compare different producers in the same line and lower class consumers buy on impulse. Managers are required to study carefully the relationship between social classes and their consumption pattern and take appropriate measures to appeal to the people of those social classes for whom their products are meant.

**3.5 Culture and business**

The relationship between culture and business is normally explained through cross cultural management that focuses on the management of human resource, employee motivation, leadership in organisations and organisationalpolitics. To a large extent management of people in organisations depends on the culture of the organisation. This gives an indication that human resource is a critical part of business and organisational management that changes with time as it has been noted that as time passes new generations are born, values, morals, expectations and the general systems that operate in real life change socially.

**3.6 Demographic structure and business**

Demographics is the study of a population based on factors such as age, race, sex and other factors. Governments, corporations, non-government organizations and other businesses use demographics to learn more about a population's characteristics for many purposes, including policy development and economic market research. For example, a company that sells handles retirement like National Pension Scheme Authority (NAPSA) wants to know roughly how many people are at or nearing retirement age and what amounts have to be paid out.

Demographics are also frequently used as a business marketing tool to determine the best way to reach customers and assess their behavior. Segmenting a population by using demographics allows companies to determine the size of a potential market. The use of demographics helps to determine whether its products and services are being targeted to that company's most important consumers. Market segments may identify a particular age group, such as Baby Boomers (born from 1946-1964) or Millennials (born 1980-2000), that have certain buying patterns and characteristics.

## 3.6.1 Types of Business Demographic Information

For corporate marketing goals, demographic data is collected in order to build a profile for the organization's customer base. The common variables that are gathered in demographic research include age, sex, income level, race, employment, location, home ownership and level of education. Demographics make certain generalizations about groups to identify customers. Additional demographic factors include gathering data on preferences, hobbies, lifestyle and more. Governmental agencies collect data when conducting a national census and may use that demographic data to forecast economic patterns and population growth in order to better manage resources.

## 3.6.2 Use of Business Demographic Information

Most large companies conduct demographic research to determine how to market their product or service and best capture the target audience. It is valuable to know the current customer and where the potential customer may come from in the future. Demographic trends are also important, since the size of different demographic groups’ changes over time as a result of economic, cultural and political circumstances. This information helps the company decide how much capital to allocate to production and advertising.

**3.7 Conclusion**

The social business environment is vital to running of a business as it brings about an understanding of consumer behaviour through demography. The culture aspect through understanding of beliefs, values and norms provide a basis for segmentation of markets of various products. The use of demographics helps in determining sector business as well.

**3.8 Activity 3.0**

1. Highlight the importance of culture to consumer behaviour.
2. As an entrepreneur, how would you use demographic information to help with business decision making?

**Technological Environment and the Business**

**UNIT 4**

**4.1 Objective**

After this unit, it is expected that the learner should appreciate and understand how technological factors as an external element can improve various businesses and also the impact that it poses on business cycles through dynamism and diffusion of technology

**4.2 Introduction**

Technology is one of the external factors in that impact business operations. Changes in technology affect how a company will do business. A business may have to drastically change their operating strategy as a result of changes in the technological environment. In today dynamic global business, technology is influencing business competitiveness through various information and technology applications methods.

**4.3 Dynamism in technology**

Technological factors are variables that are being used for evaluating available alternatives with respect to technological capabilities. Organizations consider it an important tool for improving operations and functions. As indicated earlier technological factors are one of the external factor influencing business decision making. It is an integral component of the external business analysis known as PESTLE. In the present scenario, dependence on equipment through technological factors can have more effect on business operation and success globally than ever before.

## ****4.4 Effect of Technological factors on Business Environment****

The level of business is affected by technological trends. When an employee is efficient, he turns out to be productive. Additionally, when a business is more in touch with its present and potential customers, the more chance it has to build a strong customer loyalty base. Advancement of technology can make this possible. Strategic leaders are constantly looking for development and updates within the technological environment. In this way, they not only improve their operations but, they will also be well aware of business transformational phase. They will derive groundbreaking strategies to grow exponentially.

### ****4.4.1 Technology and Transformation of Operations****

The **technological environment of business** has changed the way in which businesses function. Advancements in information technology have almost taken over every department of the organization. Now, information is stored in data servers and cloud technology as against the old way of storing data in registers and files.

Furthermore, development of technology has also introduced digital marketing strategies through which companies are able to sell their products and services. Even the research and development R&D divisions in companies have changed its way of functioning and more advanced techniques in the development of products and services have been introduced only through technological advancements.

For example, Siemens and Boeing are hugely investing in the adaption of 3D printing technique for product designing. They believe that this will accelerate the designing process, reduces production cost as well as improves the effectiveness of designing.

### ****4.4.2 Technology Development and Marketing Strategies****

Technology has brought in a transformation through which companies collect, record, retrieve and utilize data and which also helps them in coming up with groundbreaking business strategies. Through available data, companies are able to monitor and evaluate customer trends and their demands for a particular product. Thanks to the development of information technology, businesses can understand consumer behavior and conduct a macro environmentanalysis and develop marketing strategies accordingly.

Technology is not only useful for collecting and using data but, it is also being used by organizations to analyze data and make meaningful conclusions as well as informed decisions. Having more focus on the customers, business strategies will certainly prove out to be effective for the success of an organization.

## ****4.5 Impact of Technology on Business****

**Technological environment**imposes positive effects on a business. Internet makes the communication process smoother and easier. Despite all the pros, technology has on the business environment, it also imposes some negative impacts as well.

Internet technology like Skype and other chat rooms have made it possible for businesses to hold meetings without having all the parties be physically present at the same place. This type of meeting is less personal as compared to a face-to-face meeting. In this way, the personal aspect of business relationships tends to reduce. The negative effect is that lack of physical proximity has reduced brainstorming as another form of communication which involves personal touch.

## ****4.6 Examples of Technological Factors****

Any form of business will benefit immensely from using different types of technology. The most common technological forms are as follows:

* **Internet:** Most businesses today havea websites which help them in making and maintaining a global presence. By utilizing the social media platform businesses can easily communicate with their targeted audience. In addition to this, through internet technology, you can also easily communicate with your employees, clients and co-workers in other countries.
* **Automated Process:** The use of machine or automating various production lines allow companies to replace human unskilled tasks with completely machinery ones. This benefits the company by reducing the cost for manufacturers, suppliers, retail stores as well as other parties involved. This factor, however, imposes a negative impact on the employment level of an economy.

**4.7 Diffusion of technology**

The rapid economic and technological developments in the globally oriented business world make the strategic use of information technology (IT) essential. Small and medium-sized enterprises (SMEs) are running behind regarding the application of IT and therefore it is necessary to stimulate the diffusion and adoption of this technology within the business. In an increasingly global business environment, it is becoming apparent that innovation is not only pivotal for an organisation to achieve a competitive advantage, but that it is also critical for business survival in many industries (Klein, Conn,&Sorra, 2001). Greater recognition of its potential value has sparked organisations to adopt a variety of innovations such as Total Quality Management, Business Process Reengineering, and as discussed in this case, Lean Manufacturing. Often, however,the potential benefits are not realised, with reported failure rates of between 40 and 70 percent for new technology change projects (Burnes, 2003). However, much of this can be attributed to implementation failure, rather than failure of the innovation itself (Klein et al., 2001; Klein &Knight, 2005). In order to overcome this issue, external agencies such as technology diffusion agencies (TDAs) are being created to help companies implement innovation. However, there is limited research on the roles these agencies play and the services they can provide.

The role of technology diffusion agencies in innovation implementation is clearly limited to that level of assistance and advice that organisations will accept. However, innovation implementation is a complex process, and organisations may need assistance not only with the technical aspects of innovation implementation, but also with the more intangible aspects, such as creating a learning culture and maintaining a long-term orientation.TDAs are uniquely placed to provide this assistance, and expanding their services to include this aspect of innovation assistance may help them to become even more relevant to the organisations they seek to help.

The global business environment is now exceedingly competitive, with a high rate of innovation failure and the need to find ways to support organisations to successfully implement innovation is greater than ever.Technology diffusion agencies have emerged for this reason, and can be a powerful tool, however it is necessary to build a greater understanding of their possible roles and benefits for innovating organisations.

**4.8 E-business**

## Electronic business (e-business) refers to the use of the Web, Internet, intranets, extranets or some combination thereof to conduct business. E-business is similar to e-commerce, but it goes beyond the simple buying and selling of products and services online. E-business includes a much wider range of businesses processes, such as supply chain management, electronic order processing and customer relationship management. E-business processes, therefore, can help companies to operate more effectively and efficiently.

Electronic business is a broader term that encompasses other common terms such as e-commerce and e-tailing. As more of companies' sales, marketing and other internal business processes are conducted digitally, electronic business processes such as customer relationship management (CRM), enterprise resource planning (ERP), and content management are becoming increasingly important. This shift has also been facilitated by improved security measures for online transactions.

Some people use the terms "e-business" and "e-commerce" interchangeably, but they're not synonymous. E-commerce refers to buying and selling online, while e-business encompasses all business conducted online. E-commerce can be viewed as a subset of e-business.

### E-Business?

Perhaps the best way to understand e-businesses is with the help of examples:

* Emailing to existing and/or prospective customers is an e-business activity, as it electronically conducts a business process in this case, marketing.
* An online system that tracks inventory and triggers alerts at specific levels is also e-business. Inventory management is a business process, and when facilitated electronically, it becomes part of e-business.
* A content management system that manages the workflow between a content developer, editor, manager and publisher is another example of an e-business. In the absence of an electronic workflow, the physical movement of paper files would conduct this process. By electronically enabling it, it becomes an e-business.
* Online tools for human resources ranging from job listings and application processes to collecting and maintaining relative data about employees constitutes e-business.

Many processes that are described as e-business might be handled in-house through a company's own network, or it might be something the company outsources to a provider that specializes in whatever service is desired.

Sometimes the difference between a standard business and an e-business is just a matter of how business is conducted. For example, if you are an advisory firm helping people choose the right furniture, then you are a business, but if you run a website where people can compare furniture options, then you are an e-business.

### 4.8.1 E-Commerce

Compared to e-business, the definition of e-commerce is clearer. In its basic form, it involves placing orders online and making payments online. In the business-to-consumer (B2C) e-commerce, a business sells goods to consumers through its website.

E-commerce comes in multiple forms. Many brick-and-mortar stores also conduct sales through their websites. These sales can include every element of a sale: ordering a product, paying for a product, and having it delivered. It also might involve only part of the process. For example, a customer might order a product online to be picked up at the store. Payment might be conducted online or at the store when the item is picked up.

Many stores also sell through virtual marketplaces in addition to their own websites. For example, most popular brands in the U.S. sell products from their own websites, but they likely also have products listed on a site like Amazon.

### 4.8.2 Business-to-Business (B2B) E-commerce

Much of the e-commerce that takes place involves B2B relationships. Often this involves things like the purchasing of necessary supplies, and very often it will be automated. For example, if your business needs a particular tool or part or other supply items to function properly, you might have a contract with a supplier. To maintain efficiency, you might also have an automated process in place to track your supply levels and automatically place an order once those supplies drop below a certain level.

**4.9 Conclusion**

Technological factors to a large extent cannot be avoided in today’s dynamic business environment. They are source of competitiveness as they bring out differentiation and low cost leadership through the use of e-business therefore allowing for a convenient interaction of activities in the business environment.

**4.10 Activity 4.0**

* 1. Discuss the importance of technology to business
  2. How would you apply e-business to enhance the operations of an organisation?

**Economic environment**

**UNIT 5**

**5.1 Objective**

This unit provides a learner with a wide understanding of the economic environment through the understanding of macroeconomic issues such as GDP, Nominal GDP, Real GDP National income, GNP, Interest rates, Exchange rate, Per capita income etc. It will give an insight into on the business cycles as well.

**5.2 Introduction**

The economic environment consists of micro and macro environments that represent indicators of economic activities to allow for assessment of economic and business performance. Though various solutions to economic future of an organisation are assumed, the understanding and prediction of what the future holds is not a representation of the actual picture.

**5.3 Macroeconomic fundamentals**

Overall economic activity is measured in variety of ways. Macroeconomic fundamentals include topics that affect an economy at large. This can include statistics onGross Domestic Product (GDP), unemployment, supply and demand, growth, and inflation, as well as considerations for monetary or fiscal policy and international trade.The key macroeconomics variables are divided into two basically variables for the domestic side and international side.

* Output, price level and interest rates are the key variables for domestic side of the economy.
* The exchange rate and rate and the balance of payments are the key variables on international side.

The major macroeconomic issues influence business and calls for business to react in a positive way for purposes of growth and survival. The following are main macroeconomic issues:

**5.3.1 National Income**

This basically money measure of the overall annual flow of goods and services in an economy. It represents the value of goods and services becoming available for consumption plus the net additions to the national stock of capital. The term normally used to be precise is ‘national product’ or net national product.

**5.3.2 Gross Domestic Product GDP**

Gross domestic product (GDP) is a monetary measure of the market value of all the final goods and services produced in a period (quarterly or yearly) of time. It is also referred to as the total measure of factors of production located within the country regardless of nationality of the owner of the factors of production a good example is that the GDP of Zambia is a total sum of goods and services produced by the local and foreign factor inputs in Zambia.

**5.3.3 Gross National Income GNP**

It is the measure of the total output of production from the residents of the country. It also takes into account assets located overseas but owned by the locals. In other words gross national income includes the earnings from all assets owned by residents. It even includes those that don’t flow back into the country. It then omits the earnings of all foreigners living in the country, even if they spend it within the country. GNP only reports how much is earned by the country's citizens and businesses, no matter where it is spent in the world.

**5.3.4 Nominal GDP**

**Nominal GDP**is GDP evaluated at current market prices. Therefore, nominal GDP will include all of the changes in market prices that have occurred during the current year due to inflation or deflation. Inflation is defined as a rise in the overall price level, and deflation is defined as a fall in the overall price level. In order to abstract from changes in the overall price level, another measure of GDP called real GDP is often used. Real GDP is GDP evaluated at the *market prices of some base year*. For example, if 2000 were chosen as the base year, then real GDP for 2005 is calculated by taking the quantities of all goods and services purchased in 2005 and multiplying them by their 2000 prices.Nominal GDP estimates are commonly used to determine the economic performance of a whole country or region, and to make international comparisons.

**5.3.5 Per capita Income**

This is expressed as the total national income divided by the total population of a country. It depicts the value of goods and services received during the year by an ‘average man’. Per Capita Income can also be explained as a measure of the amount of money earned per person in a certain area. It can apply to the average per-person income for a city, region or country, and is used as a means of evaluating the living conditions and quality of life in different areas.

**5.5.6 Economic Growth Rate**

This simply an indication of the change in the size of national income per given unit of time.The economic growth rate is a measure taking into account the growth from one period to another in percentage terms. This measure does not adjust for [inflation](https://www.investopedia.com/terms/i/inflation.asp); it is expressed in nominal terms.

In practice, it is a measure of the rate of change that a nation's [gross domestic product](https://www.investopedia.com/terms/g/gdp.asp) (GDP) goes through from one year to another, but [gross national product](https://www.investopedia.com/terms/g/gnp.asp) (GNP) can also be applied if a nation's economy depends heavily on foreign earnings.

**5.3.7 Interest Rates**

This is basically a return on investment or cost of borrowed funds for a stated period of time. It can also be explained further asthe amount of interest due per period, as a proportion of the amount lent, deposited or borrowed (called the principal sum). It is defined as the proportion of an amount loaned which a lender charges as interest to the borrower, normally expressed as an annual percentage

**5.3.8 Exchange Rates**

This is the price of currency in terms of another. In the business environment, an exchange rate is the rate at which one currency will be exchanged for another. It is also regarded as the value of one country’s currency in relation to another currency. Exchange rates are determined in the business market environment through foreign exchange,which is open to a wide range of different types of buyers and sellers, and where currency trading is continuous.

**5.3.9 Unemployment**

This indicates the number of adult workers who are not employed and actively searching for a job. Most of this information in Zambia can be obtained from the Central Statistics Office (CSO). Research has indicated that the official unemployment statistics for developing countries are very unreliable the reason is that one would expect high GDP to be accompanied by declining unemployment but that is not the case in developing countries.

**5.3.10 Business Cycle and International Trade**

This is a regular pattern of expansion (recovery) and contraction (recession) in economic activity around the growth trend. Output normally tends to fluctuate around a trend in cyclical fashion. At a cyclical peak, economic activity is high relative to trend. A low point in economic activity is reached at the cyclical trough. At expansion (recovery) the employment of factors of production increases indicating increased production.

## 5.4 Factor Market

## A factor market is a marketplace for the services of a factor of production. A factor market facilitates the purchase and sale of services of factors of production, which are inputs like labor, capital, land and raw materials that are used by a firm to make a finished product. A factor market is distinct from the goods and services market, which is the market for finished products or services.

## 5.4.1 Explaining the Factor Market

As an example of a factor market, the market for refrigerators and dishwashers would be the kitchen goods market. The market for workers who are skilled in refrigerator and dishwasher assembly would be an example of a factor market. Another example of a factor market would be the market for raw materials like steel and plastic, which are two of the materials used for refrigerators and dishwashers.

Households and firms are a vital part of the economy. While households are essentially buyers and firms are sellers in the goods and services market, these roles are reversed in factor markets. In factor markets, households are the sellers of factors of production like their labor and capital (in the form of their savings), while firms are the buyers of these factors.

The combination of the factor markets, and the goods and services market, forms a closed loop for the flow of money. Households supply labor to firms, which pay them wages and salaries that are then used to buy goods and services from the same firms. This is a symbiotic relationship that benefits the economy.

A factor's price represents an income to its owner, for example, wages received by a worker, or the rent on land. The price for each factor is based on supply and demand, and is "derived demand," in that it is based on the demand for output. In a booming economy with a tight labor market, wages will rise because demand for workers is high; conversely, in recessionary conditions where unemployment is high, wages will remain stagnant or even fall.

## 5.4.2 Factor Markets as a key Element of a Market Economy

The existence of production-oriented factor markets, particularly for [capital goods](https://www.investopedia.com/terms/c/capitalgoods.asp), is one of the defining characteristics of a [market economy](https://www.investopedia.com/terms/m/marketeconomy.asp). In fact, traditional models of socialism were characterized by the replacement of factor markets with some kind of economic planning, under the assumption that market exchanges would be made redundant within the production process if capital goods were owned by a single entity representing society.

**5.6 Conclusion**

The economic environment is a critical component of PESTLE factors as it relates to all the elements and thereby influencing the behaviour of an organization through the application of macroeconomic issues such as exchange rates and interest rates. It has a bearing in indicating expansion (growth) and contraction (recession) of a business or national economy.

**5.7 Activity 5.0**

1. Discuss how the economic environment can influence your business.
2. As a business owner, explain the effect of exchange rate to your manufacturing business and growt

**Sector Environment**

**UNIT6**

**6.1 Objectives**

This unit will help the learner understand the sector environment with a view of explaining industrial concentration of markets and how this fits in the various sectors of the business environment. It will also explain the various structures of markets such as perfect competition, monopolistic, monopoly and oligopoly structures and their characteristics. Further an illustration of Michael Porter`s 5 forces for competitive advantage is also indicated.

**6.2 Introduction**

The sector environment includes industries and businesses. The terms industry and sector are often used interchangeably to describe a group of companies that operate in the same segment of the economy or share a similar business type. Despite the terms being used interchangeably, they do, in fact, have slightly different meanings. This difference pertains to their scope; a [sector](https://www.investopedia.com/terms/s/sector.asp) refers to a large segment of the economy, while the term [industry](https://www.investopedia.com/terms/i/industry.asp) describes a much more specific group of companies or businesses.

**6.3 Sector industry**

A sector is one of a few general segments in the economy within which a large group of companies can be categorized. An economy can be broken down into various sectors, which can describe nearly all business activity in that economy. For example, the basic materials sector is the segment of the economy in which companies deal in the business of exploration, processing and selling the basic materials such as gold, silver or aluminum, which are used by other sectors of the economy.

Source:<https://www.investopedia.com/ask/answers/05/industrysector.asp#ixzz5Mq8koiip>

**6.3.1 Industrial Concentration**

Business economics defines industrialconcentration as a function of the number of firms and their respective shares of the total production depending on alternatives, total capacity or total reserves in a market. Alternative terms are market concentration and seller concentration. The degree of concentration is also considered at the overall level of concentration and the level of market concentration.

Market concentration is measured a concentration ratio using Herfindahl index and the Gini co-efficient. The level of concentration of an individual industry is determined by economies of scale in production, advertising and promotion are used as attempt to get the profits arising from having market power by creating barriers to limit new firms having access to the market and by the merging with other firms order to secure large markets. This will be explained further as we look at the market structure of industries (Dhiwayo et al 2004).

**6.3.2 Structure of the industry**

This pertains to the number and size distribution of competitors in an industry, according to University of Maryland University College. Some industries, such as the restaurant and retailing industries, contain many firms or competitors. Other industries contain relatively few competitors.

Businesses don’t operate in a vacuum; they are often influenced by external factors such as the state of the economy, shifting buyer trends and even natural disasters. There are infrastructures in every industry that can affect the company’s success or failure. The four most common types of market infrastructures are perfect competition, monopolistic competition, oligopoly and monopoly. Understanding each of these infrastructures can help shape your business strategy.

### 6.3.2.1 Perfect Competition Elements

In a perfect competition infrastructure, many businesses sell the same products, goods and services, and compete for the same target audience. No individual company dominates the marketplace. This type of competition ensures that consumers have a wide variety of pricing options because the competing businesses must offer appealing prices to make a profit. In a perfect competition infrastructure, each company operates with a low-cost, high-output mentality to ensure viability. Perfect competition works well in theory, but there are few real-life examples. An agricultural market in which each seller offers the same types of vegetables at similar prices is one example.

### 6.3.2.2 Monopolistic Competition Elements

In a monopolistic competition infrastructure, many businesses sell products that are similar but with slight variations. As a result, these differentiations allow some of these businesses to create a competitive advantage that could make them more profitable than other businesses in the industry. Unlike the perfect competition infrastructure in which all products, goods and services are identical, the monopolistic competition structure allows for differences in characteristics of the goods, products and services. For example, monopolistic competition in the towel industry could mean that one company’s towels are larger and fluffier, another company’s towels have intricate designs, and yet another company’s towels dry within a few minutes. In this model, businesses influence market prices more than in perfect competition because the differences in their products enable them to set different prices.

### 6.3.2.3 Oligopoly Elements

An oligopoly infrastructure occurs when a few small businesses dominate the industry and collude with one another to bar other companies from competing in that industry. In many instances, businesses involved in an oligopoly have control over the resources, technology and raw materials necessary for success in that industry. An example of an oligopoly is the petroleum industry, where a few companies control the output and can raise prices to boost profit margins.

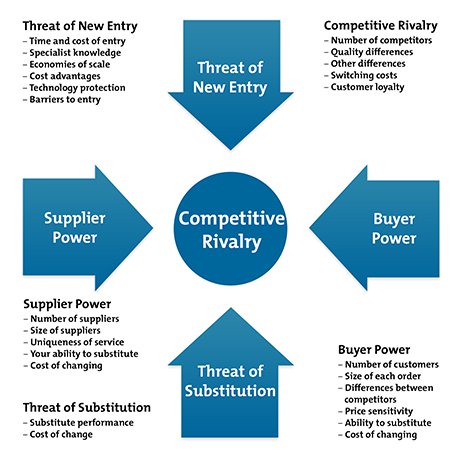
### 6.3.2.3 Monopoly Elements

In a monopoly, one business controls the industry. Any buyers interested in that specific product, service or goods must buy from or engage with that business. This infrastructure is the opposite of the perfect competition infrastructure because there are no competitors in the industry. Therefore consumers must abide by the rules, regulations and prices that the company establishes. A good example in Zambia is Zambian Breweries PLC as it is the only producer of clear beer in Zambia.

**6.4 Competition and Market power**

This competition and market power is basically illustrated through Michael Porter`s five forces:

**Figure 6.0: Porter`s 5 forces**



Source**:** http//www.investopedia.com/term/m/marketeconomy.asp

**6.4.1 Rivalry**

In the traditional economic model, competition among rival firms drives profits to zero. But competition is not perfect and firms are not unsophisticated passive price takers. Rather, firms strive for a competitive advantage over their rivals. The intensity of rivalry among firms varies across industries, and strategic analysts are interested in these differences.

Economists measure rivalry by indicators of industry concentration. The Concentration Ratio (CR) is one such measure.

The Bureau of Census periodically reports the CR for major Standard Industrial Classifications (SIC's). The CR indicates the percent of market share held by the fourlargest firms (CR's for the largest 8, 25, and 50 firms in an industry also are available). A high concentration ratio indicates that a high concentration of market share is held by the largest firms - the industry is concentrated. With only a few firms holding a large market share, the competitive landscape is less competitive (closer to a monopoly). A low concentration ratio indicates that the industry is characterized by many rivals, none of which has a significant market share:

**A larger number of firms** increase rivalry because more firms must compete for the same customers and resources. The rivalry intensifies if the firms have similar market share, leading to a struggle for market leadership.

**Slow market growth** causes firms to fight for market share. In a growing market, firms are able to improve revenues simply because of the expanding market.

**High fixed costs** result in an economy of scale effect that increases rivalry. When total costs are mostly fixed costs, the firm must produce near capacity to attain the lowest unit costs. Since the firm must sell this large quantity of product, high levels of production lead to a fight for market share and results in increased rivalry.

**High storage costs or highly perishable products** causes a producer to sell goods as soon as possible. If other producers are attempting to unload at the same time, competition for customers intensifies.

**6.4.2 Threat of Substitutes**

In Porter's model, substitute products refer to products in other industries. To the economist, a threat of substitutes exists when a product's demand is affected by the price change of a substitute product. A product's price elasticity is affected by substitute products - as more substitutes become available, the demand becomes more elastic since customers have more alternatives. A close substitute product constrains the ability of firms in an industry to raise prices. The competition engendered by a Threat of Substitute comes from products outside the industry.

**6.4.3 Buyer Power**

The power of buyers is the impact that customers have on a producing industry. In general, when buyer power is strong, the relationship to the producing industry is near to what an economist terms a **monopsony** - a market in which there are many suppliers and one buyer. Under such market conditions, the buyer sets the price. In reality few pure monopsonies exist, but frequently there is some asymmetry between a producing industry and buyers.

**6.4.4 Supplier Power**

A producing industry requires raw materials - labour, components, and other supplies. This requirement leads to buyer-supplier relationships between the industry and the firms that provide it the raw materials used to create products. Suppliers, if powerful, can exert an influence on the producing industry, such as selling raw materials at a high price to capture some of the industry's profits. The following tables outline some factors that determine supplier power.

**6.4.5 Threat of New Entrants and Entry Barriers**

It is not only incumbent rivals that pose a threat to firms in an industry; the possibility that new firms may enter the industry also affects competition. In theory, any firm should be able to enter and exit a market, and if free entry and exit exists, then profits always should be nominal. In reality, however, industries possess characteristics that protect the high profit levels of firms in the market and inhibit additional rivals from entering the market.

**6.5 Generic Strategies to counter the 5 Forces**

Strategy can be formulated on three levels:

**Corporate level**

**Business unit level**

**Functional or departmental level**.

The business unit level is the primary context of industry rivalry. Michael Porter identified three generic strategies (*cost leadership*, *differentiation*, and *focus*) that can be implemented at the business unit level to create a competitive advantage. The proper generic strategy will position the firm to leverage its strengths and defend against the adverse effects of the five forces.

Porter called the generic strategies "Cost Leadership" (no frills), "Differentiation" (creating uniquely desirable products and services) and "Focus" (offering a specialized service in a niche market). He then subdivided the Focus strategy into two parts: "Cost Focus" and "Differentiation Focus." These are shown in **Figure 6.1** below:



* **The Cost Leadership Strategy**

Porter's generic strategies are ways of gaining competitive advantage – in other words, developing the "edge" that gets you the sale and takes it away from your competitors. There are two main ways of achieving this within a Cost Leadership strategy:

1. Increasing profits by reducing costs, while charging industry-average prices.
2. Increasing market share through charging lower prices, while still making a reasonable profit on each sale because you've reduced costs.

The Cost Leadership strategy involves being the leader in terms of cost in your industry or market. Simply being amongst the lowest-cost producers is not good enough, as you leave yourself wide open to attack by other low-cost producers who may undercut your prices and therefore block your attempts to increase market share.

* **The Differentiation Strategy**

Differentiation involves making your products or services different from and more attractive than those of your competitors. How you do this depends on the exact nature of your industry and of the products and services themselves, but will typically involve features, functionality, durability, support, and also brand image that your customers value.

To make a success of a Differentiation strategy, organizations need:

1. Good research, development and innovation.
2. The ability to deliver high-quality products or services.
3. Effective sales and marketing, so that the market understands the benefits offered by the differentiated offerings.

Large organizations pursuing a differentiation strategy need to stay agile with their new product development processes. Otherwise, they risk attack on several fronts by competitors pursuing Focus Differentiation strategies in different market segments.

* **The Focus Strategy**

Companies that use Focus strategies concentrate on particular niche markets and, by understanding the dynamics of that market and the unique needs of customers within it, develop uniquely low-cost or well-specified products for the market. Because they serve customers in their market uniquely well, they tend to build strong brand loyalty amongst their customers. This makes their particular market segment less attractive to competitors.As with broad market strategies, it is still essential to decide whether you will pursue Cost Leadership or Differentiation once you have selected a Focus strategy as your main approach: Focus is not normally enough on its own.But whether you use Cost Focus or Differentiation Focus, the key to making a success of a generic Focus strategy is to ensure that you are adding something extra as a result of serving only that market niche. It's simply not enough to focus on only one market segment because your organization is too small to serve a broader market (if you do, you risk competing against better-resourced broad market companies' offerings).The "something extra" that you add can contribute to reducing costs (perhaps through your knowledge of specialist suppliers) or to increasing differentiation (though your deep understanding of customers' needs).

**6.6 Conclusion**

The sector environment create a source for business rivalry and competition through the application of models such as Porter`s five forces that can be used to establish and reposition business in industry concentrated areas through the use market differentiation, low cost leadership and strategic focus. This can be applied in most of the market structures as discussed in this unit.

**6.7 Activity 6.0**

1. What is industrial concentration and how does it influence business in the agriculture industry?
2. Using an organisation of your choice, how would you apply Michael Porte`s 5 force to gain a competitive advantage in a particular business sector.
3. Distinguish perfect competition to Monopoly market structure.

**Political Environment and Business**

**UNIT 7**

**7.1 Introduction**

The political environment in a country affects business organizations and may introduce a risk factor that could cause them to suffer a loss.There are a number government’s actions which affects the operations of a company or business. These actions may be on local, National, Regional, or International levels. Business owners and managers need to pay close attention to the political environment to gauge how government actions will affect their company. The political environment could change as a result of the actions and policies of governments at all levels, from the local level to the federal level. Businesses must plan for the variability of government policy and regulations. The government must also make sure that they develop policies that facilitate the provision of a conducive business environment which enables businesses to grow. This unity therefore introduces the impact of the political environment on businesses.

**7.2 Objective**

The Objective of this unit is to make aware to students the importance of political environment to businesses and its influence on businesses. Students should be able to know how the political environment affects businesses and how the political risk that arises out this political environment maybe contained.

### 7.3 Impact on the Economy

The political environment in a country affects its economic environment. The economic environment, in turn affects the performance of business organizations.Business is affected by different factors which collectively form the business environment. These include economic, social, legal, technological and political factors. Business environment is therefore, the total of all external forces, which affect the organization and the business operations.Political factors that affect businesses include new legislation such as the national minimum wage, Debt levels and setting tax rates such as VAT, Corporation Tax, Income tax, Royalties’ and et cetera. Economic factors that affect firms are inflation, unemployment, GDP, interest rates and exchange rates. For example in Zambia when a party is voted out of power the one which goes into power, may abandon old projects to start new projects, introduce new tax regimes and this maynegatively affect the economy and therefore reducing business activities in the country.

### 7.4 Changes in Regulation

Governments could change their rules and regulations, and this could have an effect on a business. They should come up with policies that provide an enabling environment for young entrepreneurs who may not have financial resources. The government should have a political will to engage other stockholder to develop viable policies which encourage the growth of the business sector. When there is no political will all the attempts to establish policies cannot be implemented because the political environment is not favorable. The purpose of much federal regulation is to provide protection, either to individuals, or to the environment. Whether the topic is environmental protection, safety and health in the home or workplace, or consumption of goods and services, regulations can have far reaching effects.

**7.5 Enterprise Promotion Policies.**

These are policies that are aimed at encouraging the growth of the business sector. The government should ensure that they develop policies that promote the growth of the businesses. Many counties have taken the initiative to formulate national policies that are different in scope and address the concerns of the private sector. The following are some of the enterprise policies for Zambia:

1. The Technology Development and Advisory Unit (TDAU) were established in 1975, among others to meet the following objectives:-

* To help and advise on the design and production of Agricultural and household equipment for local use,
* To service as a development centre for new equipment and process,
* To service as a centre to pool advice from university personnel to various industries,
* To establish an information centre on rural appropriate technology

1. The other board that is aimed at promoting economic enterprise is National Council for Scientific Research (NCSR)

Some of the functions of NCSR are:-

* To advise the Government on national scientific research policies and activities,
* To co-ordinate scientific research and activities,
* To promote and encourage such research programmes, particularly in relation to development plans,
* To maintain close liaison with those bodies responsible for the application of research results, i.e. government ministries, public or private industries as well as companies or organizations,
* To maintain liaison with other scientific bodies within and outside Zambia and to advise on research co-operation,
* To advise the Government on the provision and use of finance for scientific research purposes, and to advise on the recruitment and use of research staff.

1. Development of Agencies like Zambia Development Agency (ZDA) which aims at promoting and facilitating Investment, Trade and Entrepreneurship of businesses in Zambia
2. Development of policies that allow the existence of projects such as NYAMUKA Zambia which aims at financing feasible businesses by young entrepreneur’s in Zambia.

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| **Activity 7.1**  Review at least 15 enterprise promotion policies in Zambia. |

# 7.5.1 Enterprise policy

Enterprise policies are policies that are focused on promoting enterprise and entrepreneurship and creating the necessary conditions that will enable businesses across all sectors of the economy to start and grow. Enterprise policies maybe be subsidies, cost reducing by reducing tax rates, provision of certain skills, Rental reducing policies, access to finance policies, less bureaucratic cheap land acquisition policies and et cetera.

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| **Activity 7.2**  Review and analyse 10 specific notable Zambian enterprise policies. . |

## 7.5.2 Organizations/Initiatives that aim at Building the Entrepreneurship Base in Zambia.

**i) Women’s Entrepreneurial Center of Resources, Education, Access and Training for Economic Empowerment (WECREATE ZAMBIA).**

This is an initiative which was embarked on by the American Embassy to help empower women in entrepreneurship. The center delivers their services through the following ways:

* They offer Training and mentorship sessions in Startup Academy, Business SolutionsSeries, Build-A-Business Workshops and Specialized Training.
* They highlight Entrepreneurial challenges so that women prepare for them and find ways of overcoming the challenges.WECREATE Challenge
* They provide information on better access to finance for women
* They mainly support women Entrepreneurs
  1. **Youth Empowerment Fund**

The government of the republican of Zambia, through the Ministry of Youth and Sports introduced the Youth Empowerment Fund initiative in 2012, with an aim of empowering deserving youths with entrepreneurial skills. In this initiative funds are provided to business ideas that are feasible and will help reduce unemployment rate in Zambia after a thorough review of youth’s business plans.

The government also helps run this initiative by implementing policies that encourage entrepreneurship, youth participation and access to these funds.

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| **Activity 7.3**  Review the vision, mission statement and goals of 3 more organisations improving entrepreneurial services in Zambia, and state if they are achieving their objectives. |

**7.6 Effects of International and Regional Political policies on Business**

**7.6.1 Structural Adjustment Program (SAP)**

**Structural adjustment programmes** (SAPs) consist of loans provided by the International Monetary Fund (IMF) and the World Bank (WB) to countries that experienced economic crises.

Structural Adjustment Policies are economic policies which countries must follow in order to qualify for new World Bank and International Monetary Fund (IMF) loans and help them make debt repayments on the older debts owed to commercial banks, governments and the World Bank. Although SAPs are designed for individual countries but have common guiding principles and features which include export-led growth; privatisation and liberalisation; and the efficiency of the free market.

SAPs generally require countries to devalue their currencies against the dollar; lift import and export restrictions; balance their budgets and not overspend; and remove price controls and state subsidies.

Devaluation makes their goods cheaper for foreigners to buy and theoretically makes foreign imports more expensive. In principle it should make the country wary of buying expensive foreign equipment. In practice, however, the IMF actually disrupts this by rewarding the country with a large foreign currency loan that encourages it to purchase imports.

Balancing national budgets can be done by raising taxes, which the IMF frowns upon, or by cutting government spending, which it definitely recommends. As a result, SAPs often result in deep cuts in programmes like education, health and social care, and the removal of subsidies designed to control the price of basics such as food and milk. So SAPs hurt the poor most, because they depend heavily on these services and subsidies. SAPs encourage countries to focus on the production and export of primary commodities.

By devaluing the currency and simultaneously removing price controls, the immediate effect of a SAP is generally to hike prices up three or four times, increasing poverty to such an extent that riots are a frequent result.

The term "Structural Adjustment Program" has gained such a negative connotation that the World Bank and IMF launched a new initiative, the Poverty Reduction Strategy Initiative, and makes countries develop [Poverty Reduction Strategy Papers (PRSP)](http://www.brettonwoodsproject.org/topic/adjustment/PRSP%20rough%20guide/PRSP%20rough%20guide.htm). While the name has changed, with PRSPs, the World Bank is still forcing countries to adopt the same types of policies as SAPs.

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| **Activity 7.4**  Explain how SAPs and Poverty Reduction Strategy Papers (PRSP) explicitly and implicitly affect the Zambian businesses. |

**7.7 Privatization**

The term "**privatisation**", narrowly defined, means the transfer of government-owned shareholding in designated enterprises to private shareholders, comprising individuals and corporate. In simple terms it is the transfer of ownership from the public sector (government) to the private sector (business). A transfer in the opposite direction could be referred to the nationalization of some property or responsibility. One of the main arguments for the privatization of publicly owned operations is the estimated increases in efficiency that can result from private ownership. The increased efficiency is thought to come from the greater importance private owners tend to place on profit maximization as compared to government, which tends to be less concerned about profits. Proponents of privatization argue that whereas government producers have no incentive to hold down production costs, private producers who contract with the government to provide the service have more at stake, thus encouraging them to perform at a higher level for lower cost. The lower the cost incurred by the firm in satisfying the contract, the greater profit it makes. On the other hand, the absence of competition and profit incentives in the public sector is not likely to result in cost minimization.

**7.7.1 Deregulation and Liberalisation**

**Deregulation** is the process by which governments remove, reduce, or simplify restrictions on business and individuals with the intent of encouraging the efficient operation of markets. The stated rationale for deregulation is often that fewer and simpler regulations will lead to a raised level of competitiveness, therefore higher productivity, more efficiency and lower prices overall. Such policies encourage businesses to flourish and run at a lower cost and encourage interactions with other businesses.  
  
**Economic liberalization** is a broad term that usually refers to less government regulations and restrictions in the economy in exchange for greater participation of private entities. The arguments for economic liberalization include greater efficiency and effectiveness that would translate to a "bigger pie" for everybody. In Zambia liberation of the economy has proven efficient than the old system. We have seen economic indicators such as GDP, Economic Growth, Foreign Direct investment and Private sector participations improving. A liberalized economy is more likely to encourage businesses in the Nation.

**7.8 Conclusion**

From the prior discussion it is very obvious that the National and International political environment have influence on business operations. So business owners should thrive to understand the relationships that exist between certain political aspects and the daily running of the businesses so that they are not caught unaware with the political risk, and thus failing to run their businesses. Business owners should be able to predict the direction of their businesses arising from new announcements and activities from the political environment, and they should be able to take precautionary measures.

**Globalization of Business & International Business**

**UNIT 8**

**8.1 Objective**

The objective of this unit is to introduce students to the concept of Globalisation and international business.

**8.2 Introduction**

Globalization is based on the fact that we are a global village and that each country should maximize on what they are well suited to produce, for example if a country is well suited to produce cars it should just produce the cars, the rest of the things that It needs it will get from another country that is well suited to produce that particular thing. This section of the module will introduce students to the concept of globalization of business and international trade. It will look at the reasons why international trade is important and how international trade is conducted.

**Globalization** refers to the changes in the world where we are moving away from self-reliant countries and toward a more integrated world. **Globalization of business** is the change in a **business** from a company associated with a single country to one that operates in multiple countries. Changes in policy and immense changes, as well as new developments, in the field of technology, have resulted in the growth spurt that has eventually led to melting down of international boundaries and led to the global outreach of products and services. Major policy changes have opened up the markets domestically and internationally, and now local products are competing with international products.

Globalization involves a stretching of social, political and economic activities across political frontiers, regions and continents. This means that people across the world should have integrated social, political and economic activities so that international business is conducted well and countries benefit from this business.

Globalization also suggest the intensification or the growing magnitude, of interconnectedness such as flows of trade, investment, finance, migration, culture among others. The growing extensity and intensity of global interconnectedness can be linked to a speeding up of global interaction and process, as the evolution of world-wide systems of transport, and communication increases the velocity of the diffusion of ideas, good information, capital as well as human capital. The growing extensity, intensity and velocity of global interaction is associated with their deepening impact such that the effect of distant events can be highly significant elsewhere and even the most local developments may come to the enormous global consequences, in this sense, boundaries between domestic matters and global affairs become increasingly blurred.

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| **Activity 8.1**  Using Zambia as a case, Discuss in greater details how globalization has benefited and affected developing countries. |

Looking at the current market situation it is evident that those countries who adopted an open approach towards international brands, and opened up their markets to compete with foreign products, have gained a lot from globalization. Their economies have received an upward thrust that has catapulted their growth story in a hitherto unimaginable way. Even a communist giant like China has opened up some of its markets for foreign direct investment and created strategies and policies that are friendly to foreign investment. This has brought the Chinese economy to the forefront and has also resulted in an increase in the per capita income of its citizens.

Another very important factor that has boosted globalization is the stupendous growth in the field of technology. Technological development has resulted in rapid development of many aspects of our civilization. The world as we know today is very different from the one which existed fifty or even ten years ago. The kind of technological advancement that has been achieved has not only made many important discoveries, but also led to a technology-enabled lifestyle. Together with that, people have the use of an extensive number of gadgets in their day to day affairs. In this scenario, it is only natural that the products and services need to be better with each passing day; otherwise they will be immediately replaced. Globalization has thus made businesses walk on a razor’s edge in order to maintain their foothold in the fiercely competitive global market (Archibugia&Iammarino, 1999).

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| **Activity 8.2**  To what extend do you agree or disagree with the statement that. *Globalization will always benefit the developed countries and not the developing countries.* |

## 8.3 The need for international business

Internationalbusiness provides insights into the global economic and business climates. This will enable countries to from each other on how best they can be able to conductive international business, at the same time it will enable them to learn from the mistakes that other countries have made in the business environment.

Businesses are driven by the profit motive. Businesses have responsibilities towards their shareholders as well as other stakeholders to obtain a proper return on investment and also earn a profit. There are a few important aspects to this –

* Acquisition of resources

Resources would include both raw materials as well as finished goods. The acquisition of resources that will benefit the company and also help it to do better than its competitor is an objective for any business. Advanced technology with better components can help a business beat their competition.

* Increase in market base

The products that are available in India, China or the United States, are also now easily available in Britain as well.  This is because markets have opened up and are now completely dependent on the continuous flow of goods from one end of the world to the other. This is good news from the point of view of business. The production of goods and services is dependent on demand, and the larger the market the greater the demand.

* Minimizing the risk factor

The sales and profit of any product undergoes the cycle of demand and supply. If a business is limited to just one country, then the periodic shift in demand may affect its profitability, and it could be vulnerable during a slump. To negate this, it is essential that the risk be spread over as wide an area as possible. Thus international markets can help a business to stay afloat as while one market may be depressed another could be booming at any one time.

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| **Activity 8.3**  Discuss the regional and international instruments and conventions that facilitate international trade and globalization and their effectiveness. |

## 8.3.1How is international business done?

There are various ways through which the world of international business operates. It is quite important to note that all these ways have something in common, and that is the urge for global outreach.

* Import and export of merchandise

Merchandise means tangible goods that are brought in from a foreign country or that are sent over to a foreign country for sale.

* Import and export of services

Services are intangible or non-merchandise products. They include transportation and tourism. For example, a British citizen travelling to India using Air India and staying in an Indian hotel represents service export income for India and service import expenses for Britain. Note that international business services are generally more restricted by local regulations than tangible goods are.

* Investments

The foreign investments are of two types: FDIs or Foreign Direct Investment and Portfolio investment. Foreign direct investment is used when the company wants to gain a controlling interest or the sole ownership of a business. Portfolio investment is a form of non-controlling interest.

International businesses have made the world much smaller and also had a huge impact on the way business is conducted. This is visible in the various ways that have been adopted to transact business all over the world. International business has thus been hugely impacted by the phenomenon of globalization.

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| **Activity 8.4**  To what extent do you agree or disagree that Brown filed investments fertilities international trade and globalization. |

## 8.4Conclusion

Globalization has brought people and businesses much closer, therefore, the impact on international business is huge as well as remarkable. Globalization and international business are very interrelated. International business has both taken advantage of globalization and contributed to its development. The idea of globalization is making everything available at places hitherto considered difficult for business, as well as the utilization of resources that are useful, but are not easily available. Merchandise and service industries have both greatly benefitted from international transactions and even small traders have been able to benefit from it. This has also helped to bring in a wave of entrepreneurship and encouraged people to start something of their own. In a real sense globalization ushers in an era of oneness that was not there before. Are there any disadvantages? Not for businesses, if they can cope with the increased competition, they gain from global markets and resources, but for the rest of us it makes the world increasingly identical with the same international brands such as MacDonald’s, Starbucks and Coca-Cola wherever you are in the world!

**8.5Regional Economic Blocks**

**8.5.1 Southern Africa Development Community (SADC)**

The southern African development community (SADC) is a regional blocked which foresees the affairs of southern African countries. It was formed in August 19th, 1992; the members of SADC are the following Angola, Botswana, Democratic Republic of the Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. The DRC and Seychelles had no sector responsibility, the SADC headquarters is in Gaborone, Botswana. SADC has many objectives but the main objective is to ensure that economic development, peace and security, and growth, alleviate poverty, enhance the standard and quality of life of the peoples of Southern. Africa, and support the socially disadvantaged through [Regional Integration](https://www.sadc.int/sadc-secretariat/directorates/office-deputy-executive-secretary-regional-integration/). For the southern countries to achieve the objective there has to be good regional integration where countries agree on matters affecting the region and ultimately bring about development. The following are the objective of SADC.

* Achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the people of Southern Africa and support the socially disadvantaged through Regional Integration;
* achieve common political values, systems and institutions;
* Promote and defend peace and security;
* Promote self-sustaining development on the basis of collective self-reliance, and the inter-dependence of Member States;
* Achieve complementarily between national and regional strategies and programmers;
* Promote and maximize productive employment and utilization of resources of the region;
* Achieve sustainable utilization of natural resources and effective protection of the environment;
* Strengthen and consolidate the long-standing historical, social and cultural affinities and links among the people of the Region.

It is important for countries to agree on how to carry out regional trade and business, SADC makes sure that it comes up with the regulations that guide the southern African countries when it comes to trade and international business.

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| Activity 8.6  Discuss the various principles and policies that under pin the SADC common agenda. |

**8.5.2 Common Market for Eastern and Southern African Countries (COMESA)**

COMESA refers to the common market for eastern and southern African countries, it was formed in December, 1991 and its headquarters is in Lusaka Zambia. It is one of the largest regional communities with 19 member countries, and it has a population of about 390 million. COMESA is aimed at making sure that there is good and viable trade among its member countries, and to make sure that this is possible, it want to sure that peace, security and stability are basic factors in providing investment, development, trade and regional economic integration.

COMESA also want to ensure that there is tourism taking place especially between member countries, this is a good source of income at the same time the tourists bring a lot of money to the countries that they visit. Tourism also provides a platform where different ideas are changed between countries.

COMESA also contributes and supports international trade and business; it does so by putting regulations so that business takes place in an orderly manner.

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| Activity 8.7  Discuss the institutional structure of COMESA. |

**8.5.4 Free Trade Agreement (FTA)**

This is a trade agreement that is agreed upon among countries to ensure free flow of goods and services. This breaks trade barriers, reduce import quotas and tariffs, by doing so this encourage countries to engage more in international trade and therefore leading to globalization. By so doing nations that are not able to produce certain types of goods they will be able to have access to them.

**8.6International organizations**

**8.6.1 International Monetary Fund ( IMF)**

The International Monetary Fund (IMF) was formed in 1945, it has members in 189 countries, it aimed at bring about global monetary cooperation’s, sure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

The International Monetary Fund, or IMF, promotes international financial stability and monetary cooperation. It also facilitates international trade, promotes employment and sustainable economic growth, and helps to reduce global poverty. The IMF is governed by and accountable to its 189 member countries. The International Monetary Fund, or IMF, promotes international financial stability and monetary cooperation. It also facilitates international trade, promotes employment and sustainable economic growth, and helps to reduce global poverty. The IMF is governed by and accountable to its 189 member countries.

**8.6.2 World Bank**

The World Bank is another international organization which is aimed at reducing poverty; promote foreign exchange, foreign investment, capital investment and international trade. The World Bank has helped many developing countries to have the possibility the meet the [Millennium Development Goals](https://en.wikipedia.org/wiki/Millennium_Development_Goals) targets for 2015. But in order for the goals to be realized, six criteria must be met: stronger and more inclusive growth in Africa and fragile states, more effort in health and education, integration of the development and environment agendas, more as well as better aid, movement on trade negotiations, and stronger and more focused support from multilateral institutions like the World Bank.

1. **Eradicate Extreme Poverty and Hunger**: From 1990 through 2004 the proportion of people living in extreme poverty fell from almost a third to less than a fifth. Although results vary widely within regions and countries, the trend indicates that the world as a whole can meet the goal of halving the percentage of people living in poverty. Africa's poverty, however, is expected to rise, and most of the 36 countries where 90% of the world's undernourished children live are in Africa. Less than a quarter of countries are on track for achieving the goal of halving under-nutrition.
2. **Achieve Universal Primary Education**: The percentage of children in school in developing countries increased from 80% in 1991 to 88% in 2005. Still, about 72 million children of primary school age, 57% of them girls, were not being educated as of 2005.
3. **Promote Gender Equality**: The tide is turning slowly for women in the labor market, yet far more women than men- worldwide more than 60% – are contributing but unpaid family workers. The World Bank Group Gender Action Plan was created to advance women's economic empowerment and promote shared growth.
4. **Reduce Child Mortality**: There is some improvement in survival rates globally; accelerated improvements are needed most urgently in South Asia and Sub-Saharan Africa. Estimated 10 million-plus children under five died in 2005; most of their deaths were from preventable causes.
5. **Improve Maternal Health**: Almost all of the half million women who die during pregnancy or childbirth every year live in Sub-Saharan Africa and Asia. There are numerous causes of maternal death that require a variety of health care interventions to be made widely accessible.
6. **Combat HIV/AIDS, Malaria, and Other Diseases**: Annual numbers of new HIV infections and AIDS deaths have fallen, but the number of people living with HIV continues to grow. In the eight worst-hit southern African countries, prevalence is above 15 percent. Treatment has increased globally, but still meets only 30 percent of needs (with wide variations across countries). AIDS remains the leading cause of death in Sub-Saharan Africa (1.6 million deaths in 2007). There are 300 to 500 million cases of malaria each year, leading to more than 1 million deaths. Nearly all the cases and more than 95 percent of the deaths occur in Sub-Saharan Africa.
7. **Ensure Environmental Sustainability**: Deforestation remains a critical problem, particularly in regions of biological diversity, which continues to decline. Greenhouse gas emissions are increasing faster than energy technology advancement.
8. **Develop a Global Partnership for Development**: Donor countries have renewed their commitment. Donors have to fulfill their pledges to match the current rate of core program development. Emphasis is being placed on the Bank Group's collaboration with multilateral and local partners to quicken progress toward the MDGs' realization.

The World Bank-financed operations do not compromise these goals but instead add to their realization, environmental, social and legal safeguards were defined. However, these safeguards have not been implemented entirely yet.

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| **Activity 8.8**  To what extend is the world bank achieving its goals in developing countries. |

**8.6.3 World Trade Organisation (WTO)**

The **World Trade Organization** (**WTO**) is another international organization which was formed on 1 January 1995 under the Marrakesh, which is signed by 124 nations on the 15 April 1994. It is aimed at regulating world trade in goods and services including intellectual property between participating companies by providing a frame work for negotiation on trade as well as dispute resolutions. This therefore provides an enabling environment for international trade to take place leading to globalization.

According to research WTO boosted trade and that barriers to trade would be higher in the absence of the WTO.The WTO has highly influenced the text of trade agreements, between many different regional blocks.

**8.6.4 United Nations Conference on Trade and Development (UNCTAD)**

Globalization, including a phenomenal expansion of trade, has helped lift millions out of poverty. But not nearly enough people have benefited. And tremendous challenges remain.

UNCTAD support developing countries to access the benefits of a globalized economy more fairly and effectively. And it helps equip them to deal with the potential drawbacks of greater economic integration. To do this, it provide analysis, facilitate consensus-building, and offer technical assistance. This helps them to use trade, investment, finance, and technology as vehicles for inclusive and sustainable development.

Working at the national, regional, and global level, our efforts help countries to:

* Comprehend options to address macro-level development challenges
* Achieve beneficial integration into the international trading system
* Diversify economies to make them less dependent on commodities
* Limit their exposure to financial volatility and debt
* Attract investment and make it more development friendly
* Increase access to digital technologies
* Promote entrepreneurship and innovation
* Help local firms move up value chains
* Speed up the flow of goods across borders
* Protect consumers from abuse
* Curb regulations that stifle competition
* Adapt to climate change and use natural resources more effectively

Together with other UN departments and agencies, we measure progress by the Sustainable Development Goals, as set out in Agenda 2030.

We also support implementation of [Financing for Development](http://www.un.org/esa/ffd/), as mandated by the global community in the 2015 Addis Ababa Agenda, together with four other major institutional stakeholders: the World Bank, the International Monetary Fund, the World Trade Organization, and the United Nations Development Programme.

While we work mainly with governments, to effectively deal with the magnitude and complexity of meeting the Sustainable Development Goals, we believe that partnerships and closer cooperation with the private sector and civil society are essential. Ultimately, we are serving the citizens of the [194 countries](http://unctad.org/en/Pages/About%20UNCTAD/UNCTADs-Membership.aspx) that make up our organization. Our goal is prosperity for all.

## UNCTAD in the UN system

This is a permanent intergovernmental body established by the United Nations General Assembly in 1964. The headquarters of UNCTAD are located in Geneva, Switzerland, and there are some offices in New York and Addis Ababa.

UNCTAD is a member of the UN Secretariat that report to the UN General Assembly and the Economic and Social Council but have its own membership, leadership, and budget. It is also part of the [United Nations Development Group](https://undg.org/). This helps them to use trade, investment, finance, and technology as vehicles for inclusive and sustainable development.

The following are the aims of the UNCTAD;

* Comprehend options to address macro-level development challenges
* Achieve beneficial integration into the international trading system
* Diversify economies to make them less dependent on commodities
* Limit their exposure to financial volatility and debt
* Attract investment and make it more development friendly
* Increase access to digital technologies
* Promote entrepreneurship and innovation
* Help local firms move up value chains
* Speed up the flow of goods across borders
* Protect consumers from abuse
* Curb regulations that stifle competition
* Adapt to climate change and use natural resources more effectively

UNCTAD measure the progress of these goals together with other UN departments and agencies, using the Sustainable Development Goals, as set out in Agenda 2030.

**8.6.5 Environmental Protection Agency (EPA)**

# The relationship between the environment and development has become central in development policy. Environmental issues virtually cuts across all areas of development policy, particularly in relation to economic growth, industrialization, trade, agricultural development, food production, natural resources utilization and poverty. In other words, our development goals and objectives are dependent on the environment and its resources as inputs and outputs of our production system. This environmental protection agency (EPA) is an international organization that is aimed at protecting the environment. It is based on the fact that for development to take place the natural resources has to be protected. EPA has improved the health, living conditions, and economic opportunities.

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| **Activity 8.9**  To what extent is desertification man-made or a natural outcome |

## 8.7Conclusion

Globalization has brought people and businesses much closer, therefore, the impact on international business is huge as well as remarkable. Globalization and international business are very interrelated. International business has both taken advantage of globalization and contributed to its development. The idea of globalization is making everything available at places hitherto considered difficult for business, as well as the utilization of resources that are useful, but are not easily available. Merchandise and service industries have both greatly benefitted from international transactions and even small traders have been able to benefit from it. This has also helped to bring in a wave of entrepreneurship and encouraged people to start something of their own. In a real sense globalization ushers in an era of oneness that was not there before. Are there any disadvantages? Not for businesses, if they can cope with the increased competition, they gain from global markets and resources, but for the rest of us it makes the world increasingly identical with the same international brands such as MacDonald’s, Starbucks and Coca-Cola wherever you are in the world. At the same time there has been regional blocs that are aimed at making sure that world become more integrated through globalization such as SADC, COMESA, World Bank and the IMF among others.

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