

Seventh Edition

THE BUSINESS ENVIRONMENT

Ian Worthington & Chris Britton



The Business Environment

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The Business Environment

Seventh edition

Ian Worthington and Chris Britton

Leicester Business School, De Montfort University, Leicester

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Rachael, Philip, Nick and Megan, with our love



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Contributors

Authors

Ian Worthington, BA (Hons), PhD (Lancaster), is Emeritus Professor of Corporate Sustainability in the Leicester Business School at De Montfort University, Leicester, UK. He has published in, and reviewed for, a variety of academic journals in both Britain and America and is author of a recent book entitled *Greening Business: Research, Theory and Practice*.

Chris Britton BA (Hons), MSc, was formerly a Principal Lecturer in the Leicester Business School where her teaching and research interests included industrial economics, labour markets and executive recruitment. With Ian Worthington and Andy Rees she is co-author of a book on business economics.

Contributors

Diane Belfitt, BA (Hons), Diploma in Welfare Law, has taught law at a number of institutions, including Leicester Polytechnic, Leicester University and Charles Keene College in Leicester. She has examined for a number of examination boards.

Martin Morgan-Taylor, LLB, LLM, FRAS I, LTM, is a Senior Lecturer in the School of Law at De Montfort University, Leicester, where he teaches business and commercial law on a range of undergraduate and postgraduate courses. His research interests include online trading, consumer protection, and light pollution and nuisance. He is a legal adviser on the latter to the Campaign for Dark Skies and the British Astronomical Association.

David Orton, BA (Hons), is a Senior Lecturer in the Department of Strategy and Management, Leicester Business School, De Montfort University. His teaching and research interests lie in the fields of strategic management and crisis and business continuity management.

Nathan Rush is a librarian in the Kimberlin Library at De Montfort University.



Preface to the first edition

Interest in business studies has never been greater; witness, for example, the spectacular growth in the number of business schools in British universities and institutes of higher education over the last ten years and the rapidly increasing number of courses at degree and sub-degree level in which business is an important, and frequently dominant, element. Accompanying this growth in institutional provision has been an equally impressive growth in the number of books and journals devoted to the various aspects of business – including texts on management principles and practice, organisation theory, strategic management, marketing, human resource management, business economics, accounting and finance, and so on. While such contributions have invariably been welcomed and have augmented our knowledge of the business world, the overwhelming preoccupation of scholars with the internal aspects of organisational life has tended to mean that the external influences on business activity have received little attention. This book is an attempt to redress the balance.

It should be stated at the outset that our central aim is to provide a study of business, rather than a study for business – a text for students rather than practitioners, although hopefully the latter will find much of the material useful and informative. In embarking on this study, we recognise that our perspective has been conditioned by years of teaching students on business studies courses in a variety of institutions, as well as our own interests and specialisms, and consequently the choice of subject matter and the ordering of material will not suit all tutors teaching on Business Environment courses. We have, however, attempted to discuss all the mainstream areas found on degree and HND-level courses in the large number of institutions with which we are familiar, as well as exploring some newer topics which are beginning to receive prominence in a growing number of business schools (e.g. corporate responsibility). In addition, whilst adopting a UK perspective, we have drawn a substantial amount of our material from European and international sources – something often promised but not always delivered!

Each chapter in the book follows a common format, which includes objectives, a case study, review questions and assignments, and a guide to further reading. A comprehensive review of data and information sources is included in Chapter 16 (now Chapter 18) and we would strongly encourage students to make regular use of these sources, particularly the quality newspapers and journals which contain a wealth of information and analysis on the changing business environment.

In carrying out this study, we have received considerable help from numerous organisations to which we extend our thanks. These have included the Department of Trade and Industry, the Department of the Environment, the Cabinet Office, the Monopolies and Mergers Commission, the European Commission, the European Information Centre (Leicester City Council), Business in the Community, and the Confederation of British Industry.

Our gratitude also goes to the students and staff of Leicester Business School who have unwittingly helped us to gather information and to formulate our ideas over more years than we would care to mention. In particular we would like to

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Our greatest debt, however, is owed to our families who have paid the highest price in terms of lost time, boring conversations, tetchiness and a general lack of consideration. Despite all this they have remained encouraging, supportive and loving. It is to them that we rightly dedicate this book.

Preface to the sixth edition

As with previous editions, we continue to be guided by the very helpful and constructive comments of our reviewers and by our own reflections on how we could improve on the text and presentation of the material. For this edition we have added a new chapter on ‘The global context of business’ and have revised and repositioned the material on corporate social responsibility which now becomes a chapter on the ethical and ecological environment. All other chapters have been revised and updated and many contain new, internationally focused cases and/or mini cases. To emphasise the international/global aspects of business, we have introduced an ‘International business in action’ feature at the end of each of the four main sections of the book. We have also moved the chapter on ‘The technological environment: e-business’ (Chapter 16 in the fifth edition) to the website, where it becomes an additional chapter that can be downloaded for those readers who want more detail on this topic.

As ever, we are indebted to all those colleagues and past students who have supported us in this project over many years. Special thanks go to them and to the team at Pearson Education for their continued help and advice. We would also like to thank Nathan Rush in the De Montfort University library for his invaluable assistance.

Preface to the seventh edition

This edition comes some twenty years after our book was first published; we are delighted by its continued success and by the very positive and generous comments we have received over many years from successive generations of students and academic colleagues.

As with previous editions, we have updated the text to take account of recent developments and have provided a wide range of new case studies and mini cases covering a variety of contemporary issues and organisations. Chapters 2 and 9 have been substantially rewritten and the section on information sources in Chapter 18 has been revised considerably. Structurally, however, the presentation remains the same as in other editions, with suggested questions and assignments following the text in each chapter and with a further reading list that contains a range of references, including those of rival texts. Sadly, there has been little evidence of reciprocal generosity by our fellow academics over the years.

Our thanks go to all the team at Pearson Education, and particularly Eileen Srebenik and Jennifer Sargunar, for their help and advice as the new edition took shape. We continue to be indebted to all those colleagues and past students who, wittingly (or sometimes unwittingly), have supported us in this project over two decades. We would like to thank, in particular, Professor Dean Patton, Diane Belfitt, Zena Cumberpatch and Martyn Kendrick, who have contributed material to previous editions. We would also like to thank Lindsey and Tom Worthington for their invaluable help with the manuscript, and Charlie Mpengula and Eliam Ngoma for providing information on particular aspects of the text. Our thanks go, once again, to Nathan Rush in the De Montfort University library for his marvellous work on information sources in Chapter 18. We would expect no less of a fellow Leicester Tigers supporter!

Ian Worthington

Chris Britton



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Figures

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Tables

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Guided tour

2 Business organisations: the internal environment

Ian Worthington

The systems approach to the study of business organisations stresses the interaction between a firm's internal and external environments. Key aspects of the internal context of business include the organisation's structure and functions and the way they are configured in pursuit of specified organisational objectives. If the enterprise is to remain successful, constant attention needs to be paid to balancing the different influences on the organisation and to the requirement to adapt to new external circumstances. This responsibility lies essentially with the organisation's management, which has the task of blending people, technologies, structures and environments.

Learning outcomes

Having read this chapter you should be able to:

- outline the broad approaches to organisation and management, paying particular attention to the systems approach
- identify alternative organisational structures used by business organisations
- discuss major aspects of the functional management of firms
- illustrate the interaction between a firm's internal and external environments

Key terms

Bureaucracy	Human relations approach	Profit centre
Classical theories of organisation	Human resource management	Project team
Contingency approach	Management	Public sector
Divisional structure	Marketing	Re-engineering
Downsizing	Marketing concept	Scientific management
Formal structures	Marketing mix	Sub-systems
Functional organisation	Matrix structure	Systems approach
Functional specialisation	Organisation by product	Theory X and Theory Y
Hierarchy of needs	Organisation chart	Theory Z
Holding company	Private sector	Virtual organisation
		Voluntary (or third) sector

Learning outcomes highlight core coverage in terms of expected learning outcomes after completing each chapter, to help students focus their learning and evaluate their progress.

Introduction

Businesses operate in a global context: even if they do not trade directly with other countries, they might be affected by a domestic shortage of skilled labour or may be subject to developments on the global financial markets. There is a difference between globalisation and internationalisation in the business literature but both result in increased exposure to global forces. This means that businesses need an understanding of the process of globalisation. The nature of globalisation is changing; it used to mean the westernisation of the developing world, but the newly emerging economies such as Brazil, China and India are redefining processes and institutions. In 1980 the share of the developing countries in world exports was 34 per cent; by 2011 it was 47 per cent and share of world imports had gone up from 29 per cent to 42 per cent in the same period. Globalisation is here to stay and the World Bank forecasts that the share of global gross domestic product (GDP) for developing countries will rise from 29 per cent (2010) to 39 per cent (2030).

Globalisation versus internationalisation

These terms are often used interchangeably but they refer to different processes. Although there is not a single accepted definition of **globalisation**, it is a term used to describe the process of integration on a worldwide scale of markets and production. The world is moving away from a system of national markets isolated from each other by trade barriers, distance or culture. Advances in technology and mass communications have made it possible for people in one part of the world to watch happenings in far-off places on television or via the internet. So, for globalisation, national boundaries are not important economically: free trade and movement of labour and other resources result in the breakdown of these boundaries and one big global marketplace. **Internationalisation**, meanwhile, refers to the increased links between nation states with respect to trade and the movement of resources. The relevant thing here is that the nation state is still important; it is participating and cooperating with other nation states to a common end.

Regionalism and regional trade agreements are also important in this process, the European Union (EU) being an example. The main difference is that with internationalisation, the nation state remains important whereas the process of globalisation breaks down the barriers between nation states. An extreme view of this process is called **hyperglobalisation**, where the world market is seen as a borderless global marketplace consisting of powerless nation states and powerful multinational corporations. The more generally accepted view is called **transformationalism**, which sees the process of globalisation as bringing about changes both in the power of countries and companies and in national characteristics and culture. Any differences do not disappear but are maintained, albeit in changed forms. The population in India might drink Coca Cola and listen to western music, but this does not mean that they hold the same views and values as the west. Similarly, even within the EU national differences remain important (especially in times of crisis).

Key terms are drawn out at the start of every chapter and are emboldened the first time they appear in the text to enable students to locate information quickly. A full Glossary appears at the end of the book.

Whereas political parties seek influence by formally contesting political office, pressure groups seek to influence government in other ways, although this distinction is increasingly becoming blurred. In essence, pressure groups (or **lobbies**) are collections of like-minded people who have voluntarily joined together to try to influence government thinking and behaviour and to represent the interests of their members. Nowadays, many of these groups are highly organised and are powerful bodies, supported by substantial funding and formidable research facilities. Such groups (frequently referred to as non-governmental or civic society organisations) provide a vehicle through which a collective and non-party political view can be articulated in decision-making circles, as such they can be said to operate as a kind of safety valve within a democratic system of government.

Traditionally in pressure group literature, a distinction tends to be drawn between groups which represent 'somebody' and those that represent 'something'. The former are usually referred to as 'interest groups' or 'protective groups' and would include groups representing a particular section of the community, such as trade unions or professional associations. The latter tend to be known as 'cause groups' or 'issue groups', as exemplified by Greenpeace, Amnesty International and the various animal rights groups. In practice, of course, it is often difficult to make such a clear-cut distinction, given that some interest groups such as trade unions often associate themselves with particular causes and may campaign vigorously alongside other groups in support of or against the issue concerned.

web link

Most large pressure groups have websites offering useful information. Greenpeace, for example, can be accessed at www.greenpeace.org

From a governmental point of view the existence of structures for articulating sectional interests is seen as an aid to efficient and representative decision-making. Pressure groups not only provide government with detailed information on specific areas of everyday activity without which rational decision-making would be difficult, they also fulfil a number of other important functions in a democratic system. These would include:

- helping to defend minority interests;
- assisting in the implementation of government policy and legislation;
- providing for continuity in communication and consultation between the governors and the governed between elections.

The successful introduction of reforms in a country's health service, for example, is dependent upon support from the various arms of the medical profession and from organisations representing the different interests of health service workers. Similarly, the effectiveness of government economic policies, and their subsequent impact on the business community, will be conditioned at least in part by the reactions of groups representing large employers, small and medium enterprises, workers, financial interests, etc., as well as by individual entrepreneurs and consumers.

This relative interdependence between government and pressure groups under a democratic system is exemplified by the practice of prior consultation: this is the arrangement whereby the elected government actively seeks the views of interested parties during the policy and/or legislative process. Such consultation may be 'formal' (e.g. where a group has representation on an advisory or executive body or where it is invited to offer its views on a proposal) or 'informal' (e.g. off the record meetings between representatives of the group and the government) or a mixture of the two; it may also involve a group in hiring the services of a **professional lobbyist** - often a

Links to relevant web pages are highlighted throughout the text and repeated on the website www.pearsoned.co.uk/worthington to help direct students' research.

Case studies of varying complexity relate the theory represented in the chapter to real-life situations in a range of diverse organisations.

Summary of key points provides the student with a useful revision aid.

Case study: Facing the unexpected 15

case study Facing the unexpected

In previous editions of the book we have stressed how the business environment can sometimes change dramatically and unexpectedly for the worse, using the September 11 2001 attack on the World Trade Center in the US as an example of what is known as an exogenous shock to the economic system. Mercifully, events of this kind tend to be relatively rare, but when they occur they present a considerable challenge to the businesses and industries affected. The same is true when natural disasters occur, as the following recent examples illustrate.

2010 – the eruption of an Icelandic volcano sent a cloud of volcanic ash over large parts of Europe, resulting in the grounding of planes and weeks of disruption of air travel. Airlines in particular were badly affected and faced additional costs because of stranded passengers and cancelled flights. Beneficiaries included hoteliers who had to accommodate people unable to travel and alternative transport businesses (e.g. ferry operators).

2011 – an earthquake in Chile devastated the Chilean wine industry by destroying storage tanks and infrastructure. Another earthquake and a tsunami in Japan destroyed a major nuclear facility and led to damage and the temporary closure of major factories, including those of Nissan and Toyota. The negative impact on the Japanese economy resulted in a reduction in oil imports as industrial production declined and shortages of electricity occurred. To support the economy the Japanese government pumped billions of yen into the economic system.

2013 – sudden and devastating storms in the Burgundy and Bordeaux regions of France destroyed swathes of the French wine industry, resulting in a loss of jobs and income in the affected local communities, with a knock-on impact on local businesses. In China, a haze over the central and eastern parts of the country badly affected the farming industry and tempted the government to spend millions on artificial steps to trigger rain. In some areas power failures occurred as the demand for electricity soared as individuals and organisations turned on the air conditioning. Much warmer conditions were also experienced in parts of northern Europe, including the UK, resulting in increased sales of certain items (e.g. barbecues, sunscreen) and tempting many people to holiday at home. Other adverse natural events in 2013–14 included a super typhoon in the Philippines, extensive fires in parts of Australia, a major drought in California and severe storms and flooding in southern Britain, all of which had major effects on businesses and communities in the affected areas.

While there is little a business can do to protect itself totally against events of this kind, many larger firms, especially multinationals, tend to put in place contingency plans to manage unexpected crises, whether they are caused by human or natural events. A business continuity plan (BCP) can help an organisation to respond quickly and effectively to a negative situation and hopefully to survive the experience and learn from it. Smaller firms on the whole tend to lack the financial and human resources needed to adopt such resilience measures and some may not survive an adverse change in the external environment. For other organisations such a change may bring with it business opportunities, an unexpected though possibly welcome gain from an event that has a negative impact on other firms.

Case study questions

- 1 Can you think of any other examples of major unanticipated events in your own country (or areas of your own country) that have had a serious adverse effect on its firms and/or industries?
- 2 Can you think of any businesses that may have benefited commercially from this event or these events?

408 Chapter 16 International markets and trade

Synopsis

This chapter has looked at the international marketplace and, in particular, the benefits that derive from international trade. Consideration has also been given to some of the restrictions that exist to free trade and the organisations that are active in promoting it. Patterns of trade in the United Kingdom have been examined, as well as a recent history of the balance of payments position. Exchange rates were covered, including an analysis of how businesses are affected by changes in the value of currencies.

Summary of key points

- International trade takes place because it increases the output of the whole world.
- Despite this there are restrictions to international trade which include tariffs and quotas, but there are international organisations that seek to limit these and promote free trade.
- The balance of payments is a record of one country's trade with other countries.
- A balance of payments deficit is a situation where imports are greater than exports; a balance of payments surplus is the opposite, where exports are greater than imports.
- The exchange rate is the price of one currency in terms of another.
- A floating exchange rate is determined by the free market; a fixed exchange rate is determined by the government or some other authority.
- The euro is a single currency introduced into circulation in January 2002 by the members of the Eurozone.

case study Eurozone crisis

Crisis hit the Eurozone after the collapse of Lehman Brothers in 2008 and the start of the credit crunch, as Figure 16.10 shows.

In 2009, all EU economies (except Poland) ran into difficulties; even Germany recorded negative growth in GDP. By 2010 there was some recovery in most EU countries, but not in Ireland, Greece or Spain. This continued through 2011 but changed again in 2012 when several EU countries exhibited negative growth, including France, Belgium and Italy. By 2013 things looked better, except in the case of Spain, Portugal, Italy and Greece. As these

four countries were members of the single European currency, this caused major problems for the Eurozone – hence the term the Eurozone crisis. At the beginning of 2013 many commentators saw the exit of Greece from the Eurozone as inevitable and the even possibility of the failure of the single European currency was being contemplated. By the end of 2013 the situation looked very different. There had been no new bail-outs in 2013 and Ireland exited its €85 billion EU-IMF bail-out in December 2013. It looked as though the Eurozone had weathered the storm.

Summary of key points 469

Review and discussion questions

- 1 Discuss the costs and benefits to businesses of the introduction of a system for monitoring and analysing the changing external environment in which they operate.
- 2 To what extent do you agree with the proposition that only large firms should or can make use of the various techniques of environmental analysis?
- 3 Using a firm or organisation of your choice, attempt a 'SWOT' analysis. For example, can you apply such an analysis to the organisation in which you work or study?
- 4 Using the information sources discussed in the text, and any others with which you are familiar, provide a comparative analysis of consumer markets in at least eight leading European countries (including eastern Europe).

Assignments

- 1 You work for a medium-sized private company in the UK fashion industry (it can be on either the production or the retailing side). As a personal assistant to the managing director, your brief is to provide help and advice on various aspects of the firm's operations. You have recently become concerned about the lack of a system for monitoring changes in the business environment and have agreed to produce a report on the issue for the board of directors. In producing this report, you are required to identify both the costs and the benefits to the business of implementing a system of environmental scanning.
- 2 As a librarian in a college (or university) library, with responsibility for help and advice to students on business studies courses, you are frequently asked for guidance on how to access information and data on a particular company. Choosing any well-known company you wish, produce a diagrammatic representation (e.g. flow chart) of the steps you would advise students to undertake to get the information they require. At each step, indicate what type of information is available and how and from where it can be obtained.

Further reading

Branderburger, A. and Nalebuff, B., 'The right game: use game theory to shape strategy', *Harvard Business Review*, July–August, 1995, pp. 57–71.

Cooke, S. and Slack, N., *Making Management Decisions*, 2nd edition, Prentice Hall, 1991.

Fahay, L. and Narayanan, V. K., *Macroeconomic Analysis for Strategic Management*, West Publishing, 1986.

Finlay, P. N., *Strategic Management: An Introduction to Business and Corporate Strategy*, Financial Times/Prentice Hall, 2000.

Questions and assignments provide engaging activities for students and lecturers in and out of the classroom situation. Further questions on the website help to evaluate their progress.



Part One

INTRODUCTION

- 1 Business organisations: the external environment**
- 2 Business organisations: the internal environment**
- 3 The global context of business**

International business in action: The global car industry and the changing business environment

1

Business organisations: the external environment

Ian Worthington

Business organisations differ in many ways, but they also have a common feature: the transformation of inputs into output. This transformation process takes place against a background of external influences which affect the firm and its activities. This external environment is complex, volatile and interactive, but it cannot be ignored in any meaningful analysis of business activity.

Learning outcomes

Having read this chapter you should be able to:

- indicate the basic features of business activity
- portray the business organisation as a system interacting with its environment
- demonstrate the range and complexity of the external influences on business activity
- identify the central themes inherent in the study of the business environment

Key terms

Environmental change
External environment
General (or contextual)
environment

Immediate (or operational)
environment
Inputs
Open system

Outputs
PESTLE analysis
Transformation system

Introduction

Business activity is a fundamental and universal feature of human existence and yet the concept of 'business' is difficult to define with any degree of precision. Dictionary definitions tend to describe it as being concerned with buying and selling, or with trade and commerce, or the concern of profit-making organisations, and clearly all of these would come within the accepted view of business. Such a restricted view, however, would exclude large parts of the work of government and its agencies and the activities of non-profit-making organisations – a perspective it would be hard to sustain in a climate in which business methods, skills, attitudes and objectives are being increasingly adopted by these organisations. It is this broader view of business and its activities that is adopted below and that forms the focus of an investigation into the business environment.

The business organisation and its environment

A model of business activity

Most business activity takes place within an organisational context and even a cursory investigation of the business world reveals the wide variety of organisations involved, ranging from the small local supplier of a single good or service to the multi-billion-dollar international or multinational corporation producing and trading on a global scale. Given this rich organisational diversity, most observers of the business scene tend to differentiate between organisations in terms of their size, type of product and/or market, methods of finance, scale of operations, legal status and so on. Nissan, for example, would be characterised as a major multinational car producer and distributor trading on world markets, while a local builder is likely to be seen as a small business operating at a local level with a limited market and relatively restricted turnover.

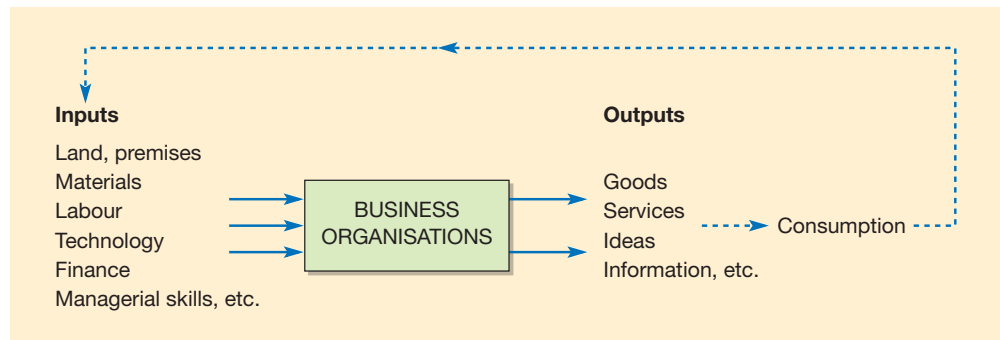


Further information on Nissan is available at www.nissan-global.com
The Nissan UK website address is www.nissan.co.uk

While such distinctions are both legitimate and informative, they can conceal the fact that all business organisations are ultimately involved in the same basic activity, namely, the transformation of **inputs** (resources) into **outputs** (goods or services). This process is illustrated in Figure 1.1.

In essence, all organisations acquire resources – including labour, premises, technology, finance, materials – and transform these resources into the goods or services required by their customers. While the type, amount and combination of resources will vary according to the needs of each organisation and may also vary over time, the simple process described above is common to all types of business organisation and provides a useful starting point for investigating business activity and the environment in which it takes place.

A more detailed analysis of business resources and those internal aspects of organisations which help to transform inputs into output can be found in Chapters 2 and 7 below. The need, here, is simply to appreciate the idea of the firm as a **transformation system** and to recognise that in producing and selling output, most organisations hope

Figure 1.1 The business organisation as a transformation system

to earn sufficient revenue to allow them to maintain and replenish their resources, thus permitting them to produce further output which in turn produces further inputs. In short, inputs help to create output and output creates inputs. Moreover, the output of one organisation may represent an input for another, as in the case of the firm producing capital equipment or basic materials or information or ideas. This interrelationship between business organisations is just one example of the complex and integrated nature of business activity and it helps to highlight the fact that the fortunes of any single business organisation are invariably linked with those of another or others – a point clearly illustrated in many of the examples cited in the text.

The firm in its environment

The simple model of business activity described above is based on the systems approach to management (see Chapter 2). One of the benefits of this approach is that it stresses that organisations are entities made up of interrelated parts which are intertwined with the outside world – the **external environment** in systems language. This environment comprises a wide range of influences – economic, demographic, social, political, legal, technological, etc. – which affects business activity in a variety of ways and which can impinge not only on the transformation process itself but also on the process of resource acquisition and on the creation and consumption of output. This idea of the firm in its environment is illustrated in Figure 1.2.

Figure 1.2 The firm in its environment