BUSINESS STUDIES 2.2

Externally assessed
4 credits

Demonstrate understanding of how a large business responds to external factors

AS 90844

This externally assessed Achievement Standard requires you to demonstrate your understanding of how a large business responds to external factors.

'External factors' refers to factors outside the business's control that can affect its formation, functions, people, management and environment. A 'large business' refers to any business operating in New Zealand with more than twenty employees and/or that has regional or national significance.

For 'Excellence' you must fully explain and justify the business's response to the effects of external factors by integrating examples with relevant business knowledge, providing information from at least one large business studied in depth. You will, in all likelihood, also need to integrate Māori business concept(s) where relevant, to fully support explanations.

Topics covered in this chapter are:

- political influences (changes to government policy; trade unions and employer associations)
- social influences (effects of demographic changes on sales and production; ethical influences and societal expectations of business activity)
- impact of technological change
- legal influences (Employment Relations Act 2000, Resource Management Act 1991, Privacy Act 1993).

Unit 1 – The external environment

In Business Studies 2.1, you studied *internal* influences (the influence of internal functions and operations) on the business.

However, businesses operate within a wider environment. The **external environment** comprises everything outside a business's control that influences the business in some way, and includes political, social, technological, and legal factors.

To be successful, business managers must be aware of external influences (the wider business environment) and make adaptations if circumstances change. Businesses that adapt too slowly lack **sustainability** – the ability to maintain current levels of activity. Sustainability can be expressed in social, economic, cultural, and environmental terms.

Managers who do not analyse the wider environment can make poor decisions.

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Example: **Price-setting**

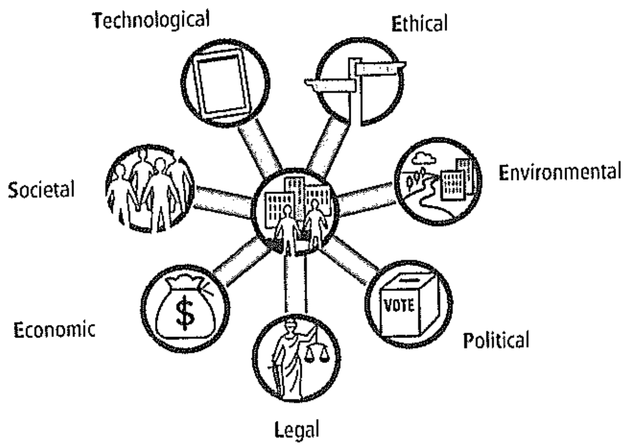
If a manager sets the price of a product too low, the business misses out on profits or makes a loss. If a manager understands how the **cost of production**, e.g. for raw materials and labour, may change in the coming year, the manager can set a price that allows for cost fluctuations. In addition, an understanding of **demands** and **trends** helps the manager set a price that maximises profit, while still satisfying the consumer's price expectations and keeping the product in demand.

Maximising profit allows the business to return profits to shareholders, or to re-invest profits into upgrades to the plant or to its human resources. Greater investment in the business and its employees can make the business more sustainable in the long term.

STEEPLE analysis

A STEEPLE analysis helps managers and business owners understand factors in the wider environment so they can act in a way that minimises negative impacts, or takes advantage of positive impacts.

'STEEPLE' is an acronym for seven factors that affect the business environment, as shown in the diagram.



Carrying out a STEEPLE analysis involves:

- collecting information about the business environment
- describing each external factor in terms of the business environment
- describing the impact each factor has on a business's **strategic objectives**
- describing the positive or negative impact each factor has on the business's **operations**
- identifying appropriate business responses to relevant external factors.

Collecting information

The more information about the business environment that is collected, the more thorough the analysis will be. Then managers can set appropriate strategic objectives that are achievable and challenging. Information may be collected from sources such as:

- the internet
- industry and employer associations
- government statistics and reports
- news stories
- customer and supplier feedback
- manager insights and knowledge.

Impacts on strategic objectives

Strategic objectives are high-level goals that set the overall direction of the business. Impacts on strategic objectives are likely to be expressed in terms of changes in profit, return on investment, market share, cash flow, sales revenue and sustainability. External influences can help or hinder an organisation's ability to achieve its objectives.

Definitions

All calculations are 'for a given period'	
Profit	Revenue minus expenses (net earnings)
Return on investment	Net profit ÷ capital invested (value returned to the owners of a business as a result of the money, time or effort they put in)
Market share	Business sales ÷ total industry sales (%)
Cash flow	Opening balance minus closing balance (availability of cash to pay everyday expenses)
Sales revenue	Monies earned by a business as a direct result of sales activities

Impacts on operations

The **operations**, or day-to-day running of the business and everyday decisions that managers make concerning actions to produce a product or service, can be affected in a number of ways, as summarised in the following table.

Production	Costs of production may increase or decrease. The processes for making the product and number of units produced may change.
Dispatch	Costs of freight and transport may increase or decrease. It might get easier or harder to get products to customers.
Human resources	Costs of employing staff may increase or decrease. Staff may become more or less happy in their work.
Sales and marketing	Advertising and sales practices may need to change. It may become easier or more difficult to attract customers.

Example: STEEPLE analysis – Weta Group

This example of a brief analysis of the external environment was made concerning the Weta Group (Weta Workshops and its associated companies), a large business that is part of the New Zealand film industry. The analysis relies on several sources of information, and includes the author's general knowledge and understanding of the industry. It looks at six STEEPLE factors.

Societal factors New Zealanders have a do-it-yourself attitude Fantasy and sci-fi are popular genres While people still attend the cinema, online movie viewing is increasing	**Technological factors** Technology enabling 48 frames a second allows smoother finished product (*New Zealand Herald*, 2012) • New software enables efficient post-production and editing
Economic factors Wages are lower in New Zealand than in other developed countries such as Australia Cheap compliance costs such as ACC and tax in New Zealand Grants available for 20% of film budget	**Political factors** New Zealand Government is 'pro-business', not strongly influenced by unions Government offers tax incentives to film industry Infrastructure such as fibre broadband has had money spent on it
Legal factors Employment law favourable to businesses – film workers are 'independent contractors'; allows flexibility for the business Intellectual-property-protection law similar to that in other Western countries	**Ethical factors** Criticism of the government's choice of offering tax breaks to American rather than New Zealand companies. Film workers are contractors – can be more easily taken advantage of than can employees

The six STEEPLE factors briefly analysed in the example are discussed in more detail in following units.

Activity: External environment

Write a clear definition for each of the following words and phrases.

External environment: ____________________

Strategic objectives: ____________________

Profit: ____________________

Sales revenue: ____________________

2. a. Describe a calculation a business could use to find its 'return on investment'.

   b. What two words mean 'availability of cash to pay everyday expenses'?

   c. What two words mean 'the percentage of all consumers demanding a certain good who buy from the business'?

3. Explain the difference between 'strategic objectives' and 'operations'.

4. Describe why business managers and owners should understand the wider environment.

5. Explain the importance of using a STEEPLE analysis for a business. In your answer you should refer to *operations* and *strategic objectives*.

6. Consider the Weta Group example above. Use the internet to research sources that might have been used in carrying out the analysis. Give an example of each of the following possible sources.

   Newspaper:

   Film industry organisation:

   Government organisation:

7. Explain the difference between internal and external influences on a business, giving an example of each.

8. Using an example, explain how completing a thorough analysis of the wider environment can help a manager avoid making poor business decisions. In your answer you should:
   - describe an example of a poor business decision
   - explain two ways in which analysis of the external environment could have helped the manager make a better decision
   - fully explain how a better decision could lead to better outcomes for the business.

9. In a small group, complete an analysis of the external environment for your school. Identify two or three influences on the school for each of the factors in the following table. You may need to ask for information from classmates, teachers, your principal or your parents, or carry out online research.
   Remember 'education' is a service and 'the community' is the customer.

Societal factors	Technological factors
Economic factors	**Political factors**
Legal factors	