

UNIT 2

THE EXTERNAL ENVIRONMENT

The external environment is everything outside an organization that might affect it. An organization's external environment consists of two layers:

- i. The general environment - refers to those nonspecific dimensions and forces in an organization's surroundings that might affect its activities. It includes economic, technological, socio-cultural, political-legal, and international forces.
- ii. The task environment - refers to those specific organizations or groups that are likely to influence an organization. It consists of competitors, customers, suppliers, regulators, unions and owners.

THE GENERAL ENVIRONMENT

1. The Political/legal Environment

Before you play the game, learn the rules. It would be absurd to start playing a new game without first understanding the rules. Yet some business people exhibit a remarkable lack of knowledge about political/legal environment. The political/legal environment consists of the law and interpretation of laws that require firms to operate under competitive conditions and to protect consumer rights.

Ignorance or noncompliance with the laws, ordinances and regulations could result in fines, embarrassing negative publicity and possibly expensive civil damage suits. To cope with the vastness, complexity and changing nature of the political/legal environment, many large firms maintain in-house legal departments and small firms seek professional advice from attorneys. All organizations, however, should be aware of the major regulations that affect their activities.

Operating within the legal framework is both socially responsible and ethical, organizations can, however, attempt to control forces in the legal/political environment. Individual firms and trade associations can influence public opinion and legislative action through advertising

and political lobbying. For example, some firms in an industry come together to form cooperative lobbying teams. Through such efforts, the industry attempts to influence legislation.

Political events can also be influenced by helping elect certain individuals to political offices. Much of this help is in the form of campaign contributions. Many organisations concern themselves with the political environment primarily because of its strong influence on the legal forces with which they must deal.

Organisations must be aware of state and local laws that influence their activities. The central and local government have established regulatory agencies to enforce laws. Organisational activities are also affected by public and private interest groups, and self-regulatory organizations. Consumer interest groups have mushroomed in the past 20 years. The power of these groups has also grown. Self-regulatory groups are industry's attempts to set guidelines for responsible business conduct.

2. Economic Environment

The economic and competitive forces in the marketing environment influence both marketers and customers' decision and activities. The overall state of the economy fluctuates in all countries. The health of the economy influences how much consumers spend and what they buy. These changes in general economic conditions affect (and are affected by) the force of supply and demand, buying power, willingness to buy, expenditure levels and the intensity of competitive behaviour.. Therefore, present-day economic conditions and changes in economy have a broad impact on the success of organization. The consumption patterns of their potential customers are affected by economic forces such as the rate of inflation, interest rates, the availability of credit for consumer purchases or investment purposes, the rate of unemployment, and the size of disposable personal income. A firm's top executives need information about the general economy in order to set meaningful directions for the firm.

3. Technological Forces

The technological environment represents the application of knowledge based on discoveries in science, invention and innovations. New technology results in new products

and services for consumers, improved existing products and often lower prices through the development of more cost-efficient production and distribution methods. Technology can quickly make products obsolete - calculators for example wiped out the market for slide rules. Technology has spawned new industries while putting some out of business. Computers, lasers and xerography all resulted in the development of major industries in the past years. Recent technological advances in superconductivity - the conducting of electricity with virtually no power loss - is expected to result in industrial expansion. Scientists and researchers around the globe are working to convert superconductor technology into commercial applications. Superconductors have the potential to eliminate urban air pollution by making electrical cars practical.

Technology affects the types of products that organisations can offer. Technological improvements in production processes and materials sometimes result in more durable, less expensive products. Because of technological changes in communications, organisations now can reach large masses of people through a variety of media more efficiently. Technological advances in transportation enable consumers to travel faster and more often to shop at a large number of stores. Changes in transportation also have affected the producers' ability to get products to retailers and wholesalers.

Through a procedure known as technology assessment, managers try to foresee the effects of new products and processes on their firms operation, on other business organization and on society in general. It is important to estimate whether the benefits of using a specific kind of technology outweigh the costs to the firm and to society generally. The degree to which a business is technologically based also will influence how its management responds to technology. Firms whose products and product changes are outgrowths of recent technology are very much concerned, with gathering and using technological information.

How a firm uses (or does not use) technology is important for its long-run survival. A firm that makes the wrong decisions may well lose out to its competitors. Poor decisions may also affect a firms' profit by requiring expensive corrective actions. Poor decisions about technological forces may even drive a firm out of business.

Organisations must closely monitor the technological environment for a number of reasons.

- É Adopting technology may be the means by which a firm remains competitive.
- É Applying new technology also gives organisations the opportunity to improve customer service. Breakthroughs in electronic communications have brought consumers the convenience of in-home shopping and 24 hours banking at automated teller machines. Many firms use computer based electronic systems to give customers information.
- É New technology can help organisations make decisions that will result in increased productivity and operating efficiency. CAD and CAM speed up the process of bringing new products to market.

4. Social/cultural Environment

Since the 1960s, changes in major social/cultural forces have had an important influence on organisations of all types. Analysis of the social environment is concerned with understanding the potential impacts of society and social changes on a business, its industry and markets.

I. International Forces

A major trend in economic activity has been the growth of international business. Environment forces within the international business include language differences, changing currency exchange rates, different national laws affecting economic activity, political risks and stability, tax laws of different nations, and social/cultural differences between nations.

THE TASK ENVIRONMENT

The task environment consist of seven dimensions: **1.**

Competitors

An organisation's competitors are other organizations that compete with it for resources. The most obvious resources that competitors vie for are customers. Customers include whomever pays money to acquire an organisation's products or services. Other competitors include

those who produce similar or substitutes products that perform a similar function and those that solve the problem or eliminate it in a dissimilar way.

2. Customers

Customers can be individuals or organizations. Dealing with customers has become increasingly complex in recent years. Understanding customers is an important factor in the

success of any business organization. A business should keep in touch with what its customers want.

Unacceptable business practices have led to the consumerism movement. Consumerism is a social force within the environment designed to aid and protect the right of consumers.

Consumer rights include:

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1. **The right to choose freely** - consumers should be able to choose from among a range of products and services.
2. **The right to be informed** - consumer should be provided with enough education and product/service information to enable them to be responsible buyers, **The right to be**
3. **heard** - consumers should be able to express their legitimate displeasure to appropriate buyers
4. **The right to be safe** - consumers should be assured that the products and services they purchase are not harmful and injurious with normal use. Products and services should be designed in such a way that the average consumer can use them safely.

Suppliers

Suppliers are organizations as well as individuals which provide resources for other organizations. Suppliers for manufacturing firms include the suppliers of raw materials as well as firms that sell machinery and other equipment. Another kind of supplier provides the capital needed to operate the organization. Banks and lending agencies are both suppliers of capital for businesses. Other suppliers provide human resources for the organization. Still other suppliers furnish the organization with information it needs to carry out its mission.

Many companies subscribe to periodicals such as profit magazine and business journals to help their managers keep abreast of news.

4. Regulators

Regulators are units in the task environment that have the potential to control, regulate, or influence an organisation's policies and practices. There are two important kinds of regulators. The first regulatory agencies are created by the government to protect the public from certain business practices or to protect organizations from one another. The other basic form of regulator is the interest group. Interest groups are formed by their own individual members to attempt to influence business. Interest groups exert considerable influence by using the media to call attention of their positions.

5. External labour

Organisations must also concern themselves with labour especially when it is organized into unions. The Industrial Relations Act requires organizations to recognize and bargain with a union if that union has been legally established and is a mother body of the organisation's employees.

6. Owners

Owners (whoever owns the organization) are also becoming a major concern of manager in ,> many businesses. Until recently, stockholders of major corporations were generally happy to sit on the sidelines and let top management run their organizations. Lately, however, more and more of them are taking active roles in Influencing the management of companies they hold stock in.

7. Strategic Allies

Strategic allies are two or more organizations working together in a joint venture or similar arrangement. Strategic alliances help companies get from other companies the expertise they may lack. They also spread the risk. Managers must be careful, however, not to give away sensible competitive information.

UNITS 3

THE INTERNAL ENVIRONMENT

An organization's internal environment consists of conditions and forces within the organization. Its major components include:

1. Board of Directors

Not every organization has a board of directors. Corporations are required to have them but many non business organizations are not. Hospitals and charities have board of trustees that serves essentially the same purpose. A board of directors is elected by the stockholders and is charged with overseeing the general management of the firm to ensure that it is being run in a way that best serves the stockholder's interests. The board plays a major role in helping set corporate strategy and seeing that it is implemented properly. The board also reviews all important decisions made by top management and determines compensation for top managers.

Employees

Employees do exert a lot of influence on organizations by way of demanding for good conditions of service. If employees demand more high pay and other benefits than they produce, an organization will be affected. A second challenge for business is harnessing human skills and talents for productive work while protecting human dignity and health at the same time.

3. Culture

The culture of an organization is the set of values that help its members understand what the organization stands for, how it does things and what it considers important. Culture plays a major role in shaping managerial behavior. Most successful foreign firms, such as Toyota are known to have strong and clear cultures that contribute to their effectiveness. Culture a powerful force in organizations, one that can shape the firm's overall effectiveness long-term success.

ASSESSMENT OF THE INTERNAL AND EXTERNAL ENVIRONMENTS

The analysis of strengths and weaknesses of organizations should follow the formation of objective. The task involves more than identifying and evaluating an organizations strengths and weaknesses; it also requires capturing a sense of how those strengths and weaknesses combine to help an organisation position itself in the market. This process of matching possibilities with capabilities is basic to the development of strategies and action plans for achieving goals.

The following techniques are used to assess the internal and external environment

1. SWOT Analysis - used to analyze both the internal and external environment
2. PEST / STEP Analysis - used to analyze the external environment
3. Porter's Five Forces Model - used to analyze an industry in which an organization operates.

SWOT ANALYSIS

A single term often used to refer to both environmental and organizational assessment is SWOT Analysis, which focuses on the strengths, weaknesses,-opportunities and threats facing organizations. SWOT is a reminder to managers that developing strategies require an analysis of both external and internal factors. The objectives of a SWOT analysis are

- (i) To assist managers in finding the best match between environmental possibilities and organizational capabilities.
- (ii) To help managers identify areas that need to be strengthened

Strengths are those positive aspects or distinctive attributes or competences, which provide significant market advantage. These attributes include present market position, size, structure, managerial expertise, physical or financial resources staffing etc. By searching opportunities, which match its strengths, the organisation can perform well.

Weaknesses are those negative aspects or deficiencies in the present competencies or resources of the organisation, or its image or reputation, which limit its effectiveness and which need to be corrected or need action taken to minimize its effect. Examples of weaknesses could be operating in a narrow market, outdated equipment, high proportion of fixed costs, a bureaucratic structure, or a shortage of key managerial staff.

Opportunities are favorable conditions and usually arise from the nature of changes in the external environment. The organisation needs to be responsive to changes in the environment, for example, new markets, technology advances, improved economic factors or failure of competitors. Opportunities provide the potential for the organisation to offer new, or to develop existing products, facilities or services.

Threats refer to unfavorable situations, which arise from external developments likely to endanger the operations and effectiveness of the organisation. Examples include changes in legislation, the introduction of a radically new product by competitors, political or economic content, changing social conditions and the actions of pressure groups. Organizations need to be responsive to changes that have already occurred and to plan for anticipated significant changes in the environment and to be prepared to meet them.

ORGANISATIONAL CAPABILITIES

1. Financial Resources

Organizations should be financially sound. An organization's financial standing can be measured by:

- (a) Ability to raise short-term and long-term capital.
- (b) Profitability and return on total investment
- (c) Liquidity positions i.e. the degree to which a firm can pay its bills on time.
- (d) Leverage position i.e. a measure of a firm's funds supplied by owners compared with funds supplied by creditors
- (e) Capacity to respond to new market opportunities

2. Production Resources

An organization's production capacity is measured by

- (a) Basic and applied research capabilities
- (b) Product and process engineering capabilities
- (c) Capacity of physical facilities to respond to changes in demand
- (d) Relations with suppliers
- (e) Quality assurance processes
- (f) Flexibility of production processes and equipment.

3. Marketing Resources

A strong marketing capability is a requirement for competitive business success. Marketing strength is assessed by:

- (a) Ability to gather, analyze and use marketing information.
- (b) Advertising and sales promotion support for
- (c) products.
- (d) Market share and market growth potential
- (e) Channels of distribution
- (e) Marketing costs
- (f) Profitability of

product

4 Human Resources

People are an organization's most critical resource. People carry out all activities of an organisation. Human resource can be one of an organisation's serious weaknesses. Conversely, an organisation's people can be its major strength and competitive edge. The following factors should be considered when assessing an organisation's people:

- (g) (h) Top management's breadth of knowledge experience, and network of working relationships.
- (i) Performance quality of major management functions (organizing, staffing, motivating, controlling etc) Organizational decision making practices

0) Organizational reward system used to elicit desired behaviors and availability of promotion opportunities . (k) Employee satisfaction and motivation (1)
 Employee absenteeism and turnover (m) Training and development opportunities
 (n) The ability to retain qualified personnel (o) The personal values and priorities of top management (p) The dominant set of shared values, beliefs, and norms that characterize the organisation (organisationnel culture).

PEST ANALYSIS

Pest (Political, economic, social and technology) analysis looks at environmental trends. The wider environment in which the organisation and its industry are located include:

1. Political environment - the content and stability of political forces affect the ability of an organization's leaders to set goals and formulate strategies. Radical shifts in the political philosophy of a nation's leaders can make business goal setting and planning extremely difficult.
2. Economic Environment - both business and non-business organisations are affected by general economic conditions. The consumption patterns of their potential customers are affected by economic forces such as the rate of inflation, interest rests, the availability of credit for consumer purchases or investment purposes, the rate of unemployment, and the size of disposable personal income. A firm's top executives need information about the general economy in order to set meaningful directions for the firm.
3. Social Environment - since the 1960s, changes in major social forces have had an important influence on organisations of all types. The labour force today is less willijj to work in organisations that are managed in autocratic ways. More employees vah having greater control over their work environments and want to be involved in ma!

decisions that affect their lives. Employees are interested in the quality of their work lives as well as the quantity of the benefits they receive from working. Moreover, the society at large demands that organizations conduct their businesses ethically and in a socially responsible manner.

4. Technological environment - Technology refers to the total set of mechanisms and processes used for performing and accomplishing tasks. It is any type of process or knowledge that can be or might be applied to an organisation's operations. High performing firms are devoting financial and human resources to technology management, which involves developing a strategy for managing technology that is consistent with strategic goals and corporate strategy. It also includes identifying priorities for technology investment, trying the investment to the firm's profitability goals, and encouraging scientists to translate new ideas into new products or services that will be commercially viable. Technology is one of the most rapidly changing components of the environment. Organisations should monitor trends in this environment.

Pest analysis is helpful when thinking more broadly about environmental influences.

UNIT 4

ANALYSING COMPETITORS

Satisfying customers is a major focus in a business organisation; but it is not enough to guarantee success. The real question is whether a firm can satisfy customers better than

competitors. Since corporate performance depends on both customer satisfaction and being able to create greater value than competitors^ firms need to understand their competitors as well as their customers. Competitor analysis is thus crucial to the successful implementation of marketing strategy.

Competitor Analysis

Competitor's action can spoil an otherwise attractive industry, their weaknesses can be a target for exploitation, and their response to a firm's marketing initiative can have a major impact on their success.

Competitive information can be obtained from marketing research surveys, recruiting competitor's employees, secondary sources, distributors and gathering competitor's sales literature.

Competitor analysis seeks to answer five key questions: i.

- Who are our competitors? ii. What are their strengths and weaknesses? iii. What are their strategic objectives and thrust? iv. What are their strategies? v. What are their response patterns?

1. Who are our competitors?

Competitors are those companies who are producing technically similar products (e.g. companies). The actions of any competitor can affect the performance of a firm

therefore need to be monitored. Their response also need to be assessed as they will determine the outcome of any competitive move that a rivalry firm may wish to make.

Beyond these current competitors the environment needs to be scanned for potential entrants into the industry. These can take two forms: entrants with technically similar products and those invading the market with substitutes.

Competitors include:

- i. Product form competitors - technically similar products and services
- ii. Product substitutes - those who produce substitute products/services that perform a similar function.
- iii. Generic competitors - those that solve the problem or eliminate in a dissimilar way.

2. What are their strength and weaknesses? É;

Having identified our competitors the next stage is to complete a competitor audit in order to assess their relative strengths and weaknesses. A precise understanding of competitor strengths and weaknesses is an important pre requisite of developing competitor strategy. In particular it locates areas of competitive vulnerability. Success is most often achieved when strength is concentrated against against the competitor's greatest weakness. As much information as practicable should be gathered. For example, financial data concerning profitability, profit margins, sales and investment levels, market data relating to price levels, market share and distribution channels used, and customer data concerning awareness of brand names; product and service quality, and selling ability may be relevant. ,

A three-stage data gathering process can be used as follows:

- i. Identify key factors for success in the industry - these include the ability to respond quickly to customer needs, innovativeness, or the capability to provide other sales service. Since these factors are critical for success, they should be used to compare a company with its competitors.
- ii. Rate the company and competitors on each key success factor using a rating scale -each company is given a score on each success factor using a rating device. This may be a scale ranging from 1 (very poor) to 5 (very good). The company can be rated

alongside two competitors. For example, company 1 may be relatively strong regarding technical assistance to customers and access to international distribution channels, but relatively weak on product quality. Company 2 can be relatively strong on international distribution channels but weak on innovativeness, financial strength and having a well-qualified workforce.

- iii. Consider the implications for competitive strategy - the competitive profile analysis is then used to identify possible competitive strategies. The analysis might suggest that a company takes steps to improve on its weaknesses. If a company's strength is in product quality, the competitor's moves to improve product quality should be carefully monitored.

3. What are the strategic objectives and thrust?

The third part of competitor analysis is to define their strategic objectives.

Strategic objectives include:

- ii. A build objective - is concerned with increasing sales and/or market share. A harvest objective - emphasis is on maximizing short-term cash flow through cost reduction and price increase. It is useful to know what strategic objectives are being pursued by competitors. A hold objective - focus on maintaining sales and/or market share.
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Knowing competitor's strategic objectives is useful in predicting their likely strategies. For example, a build objective is likely to be accompanied with aggressive price and promotional moves, a hold objective with competitive stability, and a harvest objective with cost-oriented strategies. Strategic thrust refers to the future areas of expansion that a company might contemplate. Broadly, a company can expand by penetrating existing markets more effectively with current products, launching new products in existing markets or by growing in new markets with existing or new products. Knowing strategic thrust of competitors can help in strategic decision-making. For example, knowing that competitors are considering expansion in Lusaka but not in Kitwe will make expansion into Kitwe a more attractive strategic option for a company.

4. What are their strategies?

Competitor analysis attempts to deduce positioning strategy by assessing a competitor's product's target market and differential advantage. Companies and products/services need to be continuously monitored for changes in positioning strategy. Strategies can also be defined in terms of competitive scope. For example, are competitors attempting to serve the whole market, a few segments or a particular niche? If a niche player, is it likely that they will be content to stay in the segment or use as springboards for market segment expansion in the future?

Competitors may be playing the cost leadership game, focusing on cost reducing measures rather than expensive product development and promotional strategies.

5. What are their response patterns?

A major objective of competitor analysis is to be able to predict competitor, response to market and competitive changes. Competitors fall under five categories depending on their response to market changes.

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- i. Retaliatory competitors - these are market leaders who respond aggressively to competitive challenges.
- ii. Complacent competitors - react slowly to new challenges. These competitors often operate in stable markets with little serious strategic challenges to any of the incumbents.
- iii. Hemmed-in competitors - are competitors who are unlikely to respond because their strategies have restricted their scope of retaliation. For example, one manufacturer of car number plates which were sold to car dealerships, nationwide failed to respond to a competitor who opened up some business in one geographical area where discounts were offered. The national supplier could not respond since to give discounts in this region would have meant granting the discount nationwide.
- iv. Selective competitors - are competitors who respond to some competitive, moves but not others.

- v. Unpredictable competitors - are those who sometimes respond, and other times do not respond. Some competitor moves are countered aggressively; while with others the reaction is weak.

ANALYSING COMPETITIVE INDUSTRY STRUCTURE.

An industry is a group of firms that market products which are close substitutes for each other. Some industries are more profitable than others. The Five Forces Model by M. E Porter is used to analyse the industry.

PORTER'S FIVE FORCES MODEL OF INDUSTRY ANALYSIS

Porter (1980) developed a framework for analyzing the nature and extent of competition within an industry. He argued that there are five competitive forces, which determined the degree of competition within an industry. Understanding the nature and strength of each of the five forces within an industry assists managers in developing the competitive strategy of their organisation. The five forces are:

1. The threat of new entrants to the industry
2. The threat of substitute products .
3. The power of buyers or customers .
4. The power of suppliers (to business in the industry)
5. Rivalry among businesses in the industry.

THREAT OF NEW ENTRANTS

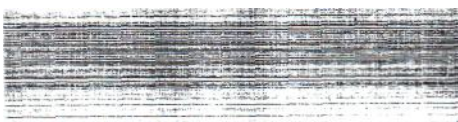
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BARGAINING POWER
OF BUYERS

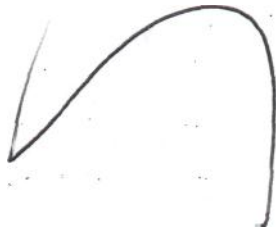
INTENSITY OF
RIVALRY IN THE
INDUSTRY

BARGAINING POWER OF
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THREAT OF SUBSTITUTE
PRODUCTS



By determining the relative power of each of these forces, an organisation can identify how to position itself to take advantage of opportunities and overcome threats. When using Porter's framework it is important to identify which of the five forces are the key forces at work in an industry. In many cases one or more of the five forces may prove to be key forces and the strategic analysis must focus on these if it is to use the framework fruitfully.



UNIT 5

THE THREAT OF NEW ENTRANTS TO THE INDUSTRY

New entrants to an industry aim at gaining market share. The seriousness of the threat of entry depends on the barriers present and the reaction from existing competitors. Porter listed six major barriers to market entry:

- (a) The capital costs of entry - the size of the investment required by a business wishing to enter the industry will be an important determinant of the extent of the threat of new entrants. The higher the investment required, the less the threat from new entrants. The lower the required investment the greater the threat. ;;;
- (b) Brand loyalty and customer switching costs - if the players in an industry produce differentiated products, newcomers have to find ways of overcoming existing brand loyalties in order to get their own product brand accepted. Brand loyalty will also be an important factor in increasing the costs for customers of switching to the products of new competitors.
- (c) Economies of scale available to existing competitors - if existing competitors are already obtaining substantial economies of scale it will give them an advantage over 5 new competitors who will not be able to match their lower unit costs of production.
- (d) Access to input and distribution channels - new competitors may find it difficult to gain access to channels of distribution which will make it difficult to provide their products to customers or obtain the inputs required.
- (e) Cost disadvantages regardless of size - newcomers will always tend to have certain cost disadvantages compared with established firms. The cost advantages of established firms stem from the effects of the learning curve, access to the best raw material sources, assets purchased at discounts, government subsidies or favorable locations.
- (f) Government policy - through licensing and legal regulations, government can limit or even prevent new comers from operating in the industry*



If barriers to entry make it difficult for new competitors to enter the industry then this will limit the amount of competition within it. As a result, competitors within the industry will attempt to seek to strengthen the barriers to entry by cultivating brand loyalty, increasing the costs of entry and 'tying up' input and distribution channel as far as possible.

2. The threat of substitute products

A substitute can be regarded as something, which meets the same needs as the product of the industry. Unless it can upgrade the quality of the product or differentiate it somehow, the industry will suffer in earnings and possibly in growth. Substitute products or services can lower industry attractiveness and profitability because they put a constraint on price levels. For example, tea and coffee are fairly close substitutes. Raising the price of coffee, therefore, would make tea more attractive. The extent of the threat from a particular substitute will depend upon two factors:

(a) The extent to which the price and performance of the substitute can match the industry's product - close substitutes whose performance is comparable to the industry's product and whose price is similar will be a serious threat to an industry. The more indirect the substitute (those that are different in substance but which can, in certain circumstances, provide the same benefit), the less likely the price and performance will be comparable.

(1») The willingness of buyers to switch to the substitute - buyers will be more willing to change suppliers if switching costs are low or if competitor products offer lower price or improved performance. Threat from substitutes can be reduced by:

- É Building up switching costs e.g by creating strong distinctive brand personalities.
- É Maintaining a price differential commensurate with perceived customer value.

To present competitors, industry attractiveness can be increased by raising entry barriers. High promotional R&D expenditures and clearly communicated retaliatory actions to entry are some methods of raising barriers. /

3. The bargaining power of Buyers

The extent to which the buyers of a product exert power over a supplying organisation depends upon a number of factors. The more power that buyers exert, the lower will be the transaction price. The bargaining power of buyers is greater when:

- (a) There are few dominant buyers and many sellers - the fewer the buyers and the greater volume of their purchases, the greater will be their bargaining power
- (b) The industry is not a key supplying group for buyers - fewer suppliers will tend to reduce the bargaining power of buyers as choice and the ability to 'shop around' is reduced.
- (c) Switching costs are low and substitutes are availability - if the costs of switching to substitute products are low, then customers will be accordingly be more powerful.
- (d) Buyers threaten to integrate backward (involves acquiring one or more of its supplies to gain more control or generate more profit) into the industry.
- (e) Suppliers do not threaten to integrate forward (involves acquiring some wholesalers or retailers, especially if they are highly profitable)into the buyer's industry.
- (f) Products are standardized.

4. The Bargaining Power of suppliers

Businesses must obtain the resources that they need to carry out their activities from resource suppliers. These resources which include human, financial, physical and intellectual (know-how, patents, brand names, logos, secret formulations and recipes etc) resources are obtained in resource markets where prices are determined by the interaction between the business supplying a resource (suppliers) and the organisations from each of industries using the particular resource in question.

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The following factors determine the strength of suppliers:

- (a) The uniqueness and scarcity of the resource that suppliers provide - if the resources provided to the industry are essential to it and have no close substitutes then supplier are likely to command significant power over the industry. If the resource can easih be substituted by other resources then its suppliers will have little power.

- (b) The cost of switching to another resource - if the resource can easily be substituted then switching costs will be low.
- (c) The number of other industries which have a requirement for the resource - the more industries to which suppliers supply a resource, the greater will be their bargaining power.
- (d) Differentiation - the highly differentiated the product, the greater will be the power of suppliers.
- (e) The number and size of the resource suppliers - if the number of organisations supplying a resource is small and the buyers are large, then the greater will be their power over the organisations in any industry. If the suppliers are small and there are many in number, they will be comparatively weak.

In short suppliers to an industry will be most powerful when:

- (i) The resource that they supply is scarce
- (ii) There are few substitutes for it
- (iii) Switching costs are high
- (iv) They supply the resource to several industries
- (v) The suppliers themselves are large
- (vi) The organisations in the industry buying the resource are small.

When the opposite conditions apply then suppliers will be weak. A firm can reduce the bargaining power of suppliers by seeking new sources of supply, threatening to integrate backward into supply, and designing standardized components so that many suppliers are capable of producing them.

5. The Intensity of Rivalry Among Competitors In The Industry

Businesses within an industry will compete with each other in a number of ways. Competition can take place on either a price or a non-price basis.

Price competition involves businesses trying to undercut each other's prices, which will in turn, be dependent upon their ability to reduce costs of production. Non-price competition will take the form of brand advertising, promotion, and additional services' to customers and product innovation.

The intensity of competition in an industry will depend upon the following factors:

- (a) The height of entry barriers and the number and size of the competitors in the industry - if there are few, large competitors in the industry, then it is likely that this is due to high entry barriers. Conversely, an industry of many, smaller competitors are likely to be the result of lower entry barriers. Competitive rivalry on both a price and non-price basis will be higher in the industry comprising more and Smaller competitors.
- (b) The maturity of the industry - if the product is mature and the industry is subject to shakeout then competition will be more intense.
- (c) The degree of brand loyalty of customers - if customers are loyal to brands then there is likely to be less competition. If there is little brand loyalty then competition will be more intense.
- (d) The power of buyers and availability of substitutes. If buyers are strong and there are close substitutes available for the product then the degree of competitive rivalry will be greater.

Regardless of the strength of these forces, a company must find a position in the industry where it can best defend itself against these forces or can influence them in its favor: Knowledge of these underlying sources of competitive pressure is important because:

- É They highlight the critical strengths and weaknesses of the company.
- É They indicate the position of the company in its industry.
- É They clarify the areas where strategic changes may yield the greatest payoff.
- É They highlight places where industry trends promise to hold opportunities and threats.
- É They highlight areas where the company should confront competition and where to avoid it.

UNIT 6

MANAGING ENVIRONMENTAL ELEMENTS

While recognising that there are limitations on the ability of organisations to manage environmental factors, a number of organisational theorists view environmental elements as somewhat manageable and advocate proactive action. Managers have three major options in attempting to manage environmental uncertainty and its potential impact:

- 1 Adapt to the existing environmental elements
- 2 Attempt to influence environmental favourability
- 3 Shift the domain of operations away from threatening environmental elements towards more beneficial ones.

1. Adaptation

The adaptation approach involves changing internal operations and activities to make the organisation more compatible with its environment. Four common approaches used by organisations to adapt to environmental fluctuations are: buffering, smoothing, forecasting and rationing.

Buffering

The use of buffering involves stockpiling either inputs into or outputs from a production or service process in order to cope with environmental fluctuations. Buffering by stockpiling inputs is used when it is difficult to line up reliable sources of inputs, such as supplies. Buffering by maintaining inventories of finished products is used when wide fluctuations in market demand make it difficult to produce outputs efficiently as they are ordered. Buffering is not always feasible because of high expense, and perishability of materials. Furthermore, substantial buffering of inputs and finished products can pose serious risks of obsolescence before they are used or sold.

Smoothing

While buffering seeks to accommodate market fluctuations, smoothing involves taking actions aimed at reducing the impact of fluctuation given the market. For example, utilities often discount their rates during designated slow-demand periods. energy in

Forecasting

Forecasting is the systematic effort to estimate future conditions. For example, grocery stores frequently hire part-time cashiers to supplement regular staff during busy periods. These types of actions are based on experience with customer patterns and such forecasts may be reasonably accurate. When environmental fluctuations are related to more complex and dynamic factors, such as trends in the economy, more sophisticated forecasting techniques may be required.

Rationing

Rationing involves providing limited access to a product or service that is in high demand. For example, many universities and colleges ration slots for popular programmes by establishing program prerequisites. Rationing has the advantage of allowing the organisation to avoid the expense of expanding capacity to meet a temporary upward swing in demand since many costs associated with capacity expansion continue during downward demand swings. Rationing had the disadvantage of denying a consumer a product or service, while the organisation is forced to turn away potential business.

2. Favourability Influence

The favourability influence approach involves attempting to alter environmental elements in order to make them more compatible with the needs of the organisation. Major methods that the organisation use in attempting to influence significant elements in the environment are: advertising and engaging in public relations, negotiating contracts, co-opting, establishing joint ventures, joining trade associations and engaging in political activities.

Advertising and Public Relations

Advertising is the use of communications media to gain favourable publicity for particular products and services. Public Relations involves the use of communications media and related activities to create a favourable overall impression of the organisation among the public.



Boundary Spanning

Boundary spanning involves creating roles within the organisation that interface with important elements in the environment. Boundary spanners can fulfill two different functions. First, they can serve an information processing function by collecting information from the environment, filtering out what is important, and transmitting the relevant information to those inside the organisation who can act on the information. Second, they can perform an external representation function by presenting information about the organisation to those outside. Examples of boundary spanning roles include salespersons, purchasing specialists, personnel recruiters, admissions officers, shipping and receiving agents, receptionists, scientists and lawyers.

Recruiting

Recruiting involves attracting job candidates who meet the needs of the organisation. This tool can be used for environmental influence when organisations seek job candidates who have a knowledge of and close ties to a significant element of the environment. For example, companies often hire executives from specific companies because of their environmental knowledge and connection.

Negotiating contracts

Negotiating contracts aims at seeking favourable agreements on matters of importance to the organisation; Specific agreements with customers and suppliers are one common means of creating environmental favourability,

Co-opting

Co-opting is the process of absorbing key members of important environmental elements into the leadership or policy-making structure of an organisation. A common example of co-optation is the addition of key members of the environment to boards of directors. For instance some universities have prominent individuals on the council. These individuals often help the universities deal more effectively with environmental elements, particularly in the area of raising funds from business.

Joint Ventures

A joint venture is an agreement involving two or more organisations that arrange to produce a product or service jointly.

Trade Associations

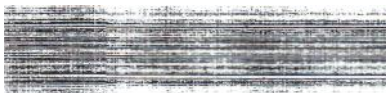
Trade associations are organisations composed of individuals or firms with common business concerns. Because they represent the pooled resources of many individuals or organisations, trade associations are frequently in an enhanced position for conducting public relations campaigns, influencing legislation through lobbying efforts, and positively affecting the favourability of the environment within which their members operate.

Political Activity

The use of political activity involves attempts by organisations to enhance their competitive situation through influencing the legislator or the behaviour of government regulatory agencies.

3. Domain Shifts

Domain shifts involves making changes in the mix of products and services offered so that an organisation will interface with more favourable environmental elements. One major approach is to move entirely out of a current product or service or geographic area into a more favourable domain. A second domain shift approach is to expand current domains through diversification, i.e the expansion of products and services offered or the development of new and different products or services.



ASSIGNMENTS

1. There are two approaches used when responding to environmental forces.
One approach views environmental forces as totally uncontrollable and difficult to predict and the organization as passive and reactive toward the environment. A second approach views forces in the environment as controllable, and the organization as proactive toward the environment. Comment on the two views in the light of available evidence. Due on 15th August 2007
2. Using Michael Porter's Model, analyse the Soft Drink Industry in Zambia. Due on 15th September 2007

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PART 2

Read

UNIT 7

THE ECONOMIC ENVIRONMENT

INTRODUCTION

A business organization may be viewed as an open system receiving inputs from and discharging its output to the environmental system. Every business is affected by the environmental changes and influences. One of the most important of the environmental forces which react with a business organization stems from the workings of the economic system. An economic system allocates a nation's resources known as factors of production among its citizens. Factors of production are the basic resources a business uses to produce goods and services. They include general economic conditions, natural resources, labour, capital and entrepreneurs. Other forces which affect a business include government's monetary and fiscal policies, markets, customers and competitors.

,/ Economic Systems

Every nation faces the problem of allocating scarce economic resources among competing ends. Since factors of production are limited in supply, economic problems arise because all wants cannot be satisfied and choices have to be made as to how the factors of production will be deployed. There is some variations in the methods adopted by different nations to solve this problem of allocation of scarce economic resources. These differences in methods are termed economic systems.

Nearly every economic system has the following goals:

- É Stability - in economic terms, stability is a condition in which the balance between money available and goods produced remains about the same. As a consequence prices for consumer goods, interest rates and wages paid to workers change very little. Stability helps maintain equilibrium and predictability for business people, consumers and workers.

É Full employment - this is a situation in which all those who want work have jobs.

É Growth - is an increase in the amount of goods and services produced by our resources.

To assess the effectiveness of an economic system objectively, it is important to consider the society's goals and the extent to which an economic system meets these goals.

Types of Economic Systems

The many countries of the world operate under a variety of economic systems.

Economic systems differ in terms of who owns and controls the factors of production; how production decisions (decisions about what, when and how much to produce) are made.

There are three types of economic systems:

1. Market or capitalist economy

;

2. Planned economies

3. Mixed economies

Market /Capitalist Economy

A market economy is an economic system in which individuals control all or most factors of production and make all or most production decisions. In market economy such as capitalism found in the U.S.A markets decide what, when, and for whom to produce. For this reason capitalist systems are also called market economies. Capitalism is characterized by private ownership of the factors of production and by a need for entrepreneurship. Adam Smith and other members of the individualist school believed that the uses to which scarce resources should be put are best determined by the market mechanism - the laws of supply and demand. It was Smith's belief that there should be little state intervention in economic affairs. His philosophy, described as laissez-faire economics, was to let the market i.e the laws of supply and demand, dictate the solution to the economic problem.

In summary, rising prices of a commodity or service would attract additional producers. Conversely, falling prices would force producers to withdraw from that field and to transfer their activities to the production of those goods and services providing a better return. The factors of production (eg labour) are similarly influenced by the laws of supply and demand

and the operation of the price mechanism. The price of labour is the wages and salaries paid for it. Declining industries pay less. Expanding industries seeking labour offer high wage rates to attract workers. Labour then moves accordingly to the expanding industries. Similarly capital, land and enterprise move towards activities which provide a better return. Thus the economy adjust itself to changes in market forces.

Advantages of Capitalism

- É Freedom of choice - capitalism offers individuals great freedom of choice in what work they do and where they do it.
- É Profits motivate entrepreneurs to use resources efficiently and to produce goods that consumers most want.

Disadvantages

- É Market forces, if not controlled, can produce economic hardships for sections of the community particularly the poor and the unskilled.
- É The profit motive sometimes becomes so strong that business harm the society in which they operate. For example, some businesses have increased profits by dumping pollutants into nearby rivers or by eliminating competitors or by making & extravagant but untrue claims about their products.
- É The free enterprise is not keen to supply certain goods and services of a public utility-nature.

Government has a positive role to play in avoiding the worst results of the economic booms and slumps which, as history has demonstrated, the free enterprise system inevitably produces.

Planned or Command Economies

A planned economy is an economic system in which government controls all or most factors of production and makes all or most production decisions. Under this system, the state has a larger role than operating as "watchdog" for employment and the provision of important public services. In the planned or command economy the government has great influence on how much shall be produced (the volume of production), what type of goods and services will comprise the volume of production, what types of work each citizen will undertake and I

how each citizen will be rewarded for his efforts. Planned economies are found in communist and socialist countries.

Communism

Communism is a kind of planned economy in which the government owns and operates all industries. It is a system in which all economic resources of a country are collectively not individually owned. Countries like the Russia, China, Cuba, Korea and Vietnam are communists. Owing to lack of incentives of profits and the risk-taking of entrepreneurs, communist nations have been characterized by failure to innovate and inefficient production of goods and services. In recent years, these problems have prompted some communist countries to experiment with elements of a market economy. For example, China has removed price controls from most items and altered its once rigid wage system to provide incentives for increased production.

Socialism

Socialism is a kind of planned economy in which the government owns and operates the main industries, while individuals own and operate less crucial industries. Thus, the government may control banking, communications, transportation, and industries that produce basic products such as oil and steel. But real estates and smaller businesses such as clothing, stores and restaurants are privately owned.

In socialist countries the government establish national goals for using the nation's resources. High priority is normally given to equitable distribution of income and assurance that all citizens receive medical care and other social services they need. Although workers in socialist countries are usually allowed to choose their occupations or professions, a large proportion generally work for the government.

Advantages of planned economies

- É Provision of social services - the basic social services are provided
- É There is equitable distribution of income.

Disadvantages

- É Government operated enterprises are inefficient since government positions are frequently filled on political consideration rather than ability.
- É Extensive public welfare systems have also resulted in very high taxes.

Because of these factors, socialism is generally declining in popularity

Mixed Economies

A mixed economy is an economic system with elements of both a planned economy and a market economy. Most of the world's countries have a mixed economy, in which one of the basic economic systems dominates but elements of the other systems are present as well.

There is no country in the world today that is purely communistic, socialistic, or capitalistic economy. The western nations such as UK and USA have developed mixed economies in which most the economic activity takes place within a free enterprise system with some measure of state control or intervention. The reason for this trend is that left entirely to itself, the free enterprise might not be keen to supply certain goods and services of a public utility nature.

Analysis of the other Economic. Factors

These include the following factors: **1.**

General Economic Conditions

The overall state of the economy fluctuates in all countries. The health of the economy influence how much consumers spend and what they buy. These changes in general economic conditions affect (and are affected by) the forces of supply and demand, buying power, willingness to buy, expenditure levels and the intensity of competitive behaviour. Therefore, present-day economic conditions and changes in the economy have a broad impact on the success of organizations.

Fluctuations in the economy follow a general pattern that is often referred to as the business stages: prosperity, recession, depression and recovery.

^ - during this stage, unemployment is low and aggregate income is relatively high. Assuming a low inflation rate, this combination causes buying power to be high. To the extent that the economic outlook remains prosperous, consumers generally are willing to buy. Organisations respond by expanding their product/services mixes to take advantage of the increased buying power. They sometimes capture a larger market share by intensifying distribution and promotion efforts.

Recession.-- because unemployment rises during recession, total buying power decline' Because of decreased buying power many consumers become more price and value conscious. People ordinarily reduce their consumption of the more expensive convenience foods and exert greater effort to save money, by growing and preparing more of their own food. Organisations should consider some revision of their marketing activities during a recessionary period. They should consider reducing the size of their product line and increasing promotional outlays to stimulate demand. Promotional efforts should emphasize value and utility.

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a<^ggggj£Jg;2i - is a period in which there is extremely high unemployment. Wages are very low, total disposable income is at a minimum, and consumer spending is lowest. Consumers lack confidence in the economy. Governments use both monetary and fiscal policies in an attempt to offset the effects of recession, depression and inflation. Monetary policies are employed to control the money supply which in turn influences spending, saving and investment by both individuals and business. Through fiscal policies, the government can influence the amount of savings and expenditures by altering the tax structure and by changing the levels of government expenditure. -ÉÉ

Recovery- is a stage in which the economy moves from recession to prosperity. During this period, the high unemployment rate begins to decline, total disposable income increases. But while consumer ability to buy increases, their willingness to buy is often characterized by caution. Remembering the hard times of recession, they may be more likely to save than spend or buy on credit. As the recovery strengthens, consumers start spending more, buying higher-priced goods and services such as house cleaning and lawn care. Recovery is a difficult stage for marketers. One is the difficulty of ascertaining how quickly prosperity will

return, and how quickly consumers will make the psychological transition from recession to prosperity.

In the recovery stage, organizations should maintain a high flexibility in their strategies in order to be able to make the needed adjustments as the economy moves from recession to prosperity.

f W2. Customers

Economic production is undertaken so as to satisfy effective demand; hence customers form a potent influence on the organization. Customer's ability to spend is affected by a number of factors such as the level of employment, people's purchasing power, people's ability to save and spend. , An organization which exists to satisfy consumer demand is affected directly by variations in these aggregates. -

(a) Level of employment

Level of employment affects earning and spending capacity as well as demand

>(b) Consumer demand and spending behaviour

r ^Organisations must understand the factors that determine what, where and when people buy.

The following aspects of buying behaviour should be analyzed:

Buying power - one of the requirements for a market is that people have buying power. The strength of a person's buying power depends on both the size of the resources that give the individual the ability to purchase and the state of the economy. The resources that make up buying power are goods, services and financial holdings. The state of the economy affects buying power because it influences price levels. During inflationary periods, when prices are rising, buying power decreases because more dollars are required to buy products. Conversely, in periods of declining prices, the buying power of a given set of resources increases.

The major financial sources of buying power are income, credit and wealth. Income is the amount of money received through wages, rents, investments, pensions and subsidy payments for a given period, such as a month or a year. Normally this money is used for three purposes: paying taxes, spending and saving. Business organizations are most interested in the amount of money that is left after taxes are paid. The remaining income after tax deductions is called *disposable income*, and is used for spending or saving. Because disposable income is the income left after taxes are paid, the number of taxes and their amount directly affect the size of total disposable income. When taxes rise, disposable income declines, when taxes fall, disposable income increases. É ..

Disposable income that is available for spending and saving after an individual has purchased the basic necessities of food, clothing, and shelter is called *discretionary income*. People use discretionary income to purchase entertainment, vacations, automobiles, education, furniture, appliances, and so on. Changes in total discretionary income affect the sales of these products, especially automobiles, furniture, large appliances and other durable goods.

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Credit transactions enable people to spend future income now or in the near future. Credit increases current buying power at the expense of future buying power. Interest rates affect consumer's decisions to use credit, especially for expensive purchases such as home appliances and automobiles. When credit charges are high, consumers are more likely to delay buying expensive items. Credit usage is also affected by credit terms, such as the size of the down payment and the amount and number of monthly payments. A person can have a high income and very little wealth. Wealth is accumulation of past income, natural resources and financial resources. It may exist in many forms, including cash securities, savings, accounts, jewelry, antiques and real estates. The significance of wealth to marketers is that as people become wealthier, they gain buying power in three ways : they can use their wealth for current purchases, use it to generate income and also use it to acquire large amounts of credit.

Organisations need to analyze buying power because of its tremendous impact on consumers reaction to firms' marketing strategies.

Income, wealth and credit equip consumers to purchase goods and services. Organisations should be aware of current levels of expected changes in buying power in their own markets because buying power directly affects the types of quantities of goods and services that consumers purchase.

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(c) Consumers' willingness to spend

Just because consumers have buying power, however, does not mean that they will buy. Consumers must also be willing to use their buying power. People's willingness to spend is to some degree related to their ability to buy. However, a number of other elements also influence willingness to spend. Price of produces and services influence consumers. Price of substitute products may influence consumers' desire to buy. If a price of a product is too high consumers might look for a substitute product with a much lower price. The amount of satisfaction currently received or expected in the future from a product already owned may also influence consumers' desire to buy other products.

Factors that affect consumers' general willingness to spend are: expectations about future employment, income levels, prices, family size and general economic conditions. If people are unsure whether or how long they will be employed, willingness to buy ordinarily declines. Willingness to buy may increase if people are reasonably certain of higher incomes in the future. Expectations of rising prices in the near future may also increase the willingness to spend. For a given level of buying power, the larger the family, the greater the willingness to buy. As the size of a family increases a greater number of dollars must be spend to provide the basic necessities of life to sustain the family members. Lastly, perceptions of future economic conditions influence willingness to buy.

UNIT 10

TECHNOLOGICAL ENVIRONMENT

All nations, regardless of their different socio-economic systems and ideologies face three fundamental and interrelated economic problems.

- É The first problem is what should be produced and in what quantities.
- É The second problem is how should the chosen goods or services be produced.
- É The third problem is for whom should the goods and services be produced.

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Without technology no society can produce the required goods and services. One of the principle means by which organizations compete is by differentiating their products and services from those of other firms. This means improving current products or creating new ones. This occurs through new technology. Technology refers to all the skills, knowledge, methods and equipment required to convert resources into goods and services.

Technology and Change

Technology is changing continuously and at an ever increasing rate. Technological change leads to the introduction of new products, changes in the methods and organization of production, changes in the quality of resources and products, new ways of distributing the product and new ways of storing and disseminating information. Some of the major changes include:

Biotechnology - the development of new products like computers that can imitate the activity of the brain can shorten the development process for certain products by speeding up existing processes.

11. Energy - the kind of development taking place in this field are the use of superconductors to transport electricity and the use of solar energy as another viable source of energy, iii.

Information technology - developments in information technology which involves the collection, handling, analysis and transmission of information have had the effect of transforming existing business activities as well as creating entirely new ones.

IV. Telecommunication - enormous amount of data are transmitted between countries and businesses around the world every minute of the day and night. Tele means distance

5. Traditional beliefs - indigenous people's beliefs may limit technological growth. In Western Australia, aborigines prevented two international mining companies from drilling for oil at a site they considered sacred. They believed that the spirit of a giant sacred serpent lay sleeping under the ground where the mining companies had discovered the oil.
6. Dependence on foreign technology - developing countries are too dependent on imported technology. This aspect has made indigenous scientists and technologists in these countries to be less innovative and to feel disregarded.
7. Conservatism - which refers to an inclination to preserve the existing order of things has resulted in resistance to change

Enhancing Technological Growth

Technological advancement in a country can be attained through the following ways that require concerted effort:

1. Generous contributions to formal education by businesses and other institutions - educational institutions that are funded by stated or national governments generally lack the necessary resources to provide training facilities. Business should assist by ... , contributing towards education
2. Mass education about the significance of research., science and technology - this can be accomplished through regular seminars, radio and television programs, and newspaper columns which may be sponsored by business organizations and government. If properly implemented, mass education can encourage individuals and groups to support, conduct, and use research. It can also break traditional beliefs and people's break traditional beliefs and people's conservative attitudes.
3. Encouraging research by the government, business and other institutions in society - research can be encouraged in various ways which include:

É Providing financial and material assistance to individuals, groups, or organizations that may need external support of technology and science-related research projects.

É Accepting and utilizing the findings of relevant researchers.

THE NATURAL AND PHYSICAL ENVIRONMENT

The Environment As An Asset

In economics the environment is viewed as a composite asset that provides a variety of services. As with other assets, undue depreciation of the value of this asset should be prevented so that it may continue to provide the society with life-sustaining services.

The environment provides the economy with both raw materials (i.e natural resources) which are transformed into consumer products by the production process and energy which fuels this transformation. The natural resources are what nature, has given to mankind. Resources include mineral deposits, coal, iron ore, diamonds, water, soil, forests, fish and game. The environment also provides services directly to consumers. The air we breathe is one benefit we receive directly from the environment.

Classification Of Resources

Resources are classified into:

- a) Finite renewable resources - include solar energy, cereal grains, fish, forests, etc. A flow of these resources can be maintained perpetually. For some renewable resources, the continuation and their flow depend on humans. Excessive fishing, for example, reduces the stock of fish, which in turn reduces the rate of natural increase of the fish population. For other renewable resources such as solar energy, the flow is independent of humans. The amount consumed by one generation does not reduce the amount that can be consumed by subsequent generation.
- b) Finite non-renewable resources - include oil, coal, gas and various minerals. The potential reserves for non-renewable resources can be exhausted. The depletion rate is affected by the demand for and the durability of the product made from these resources. Durable products lasts longer, and hence reduce the need for newer ones.

Social And Economic Implications Of Environmental Depletion

Current consumption patterns have an effect on future generations. When resources are scarce, greater current use diminishes future opportunities. Environmental problems exist when resource allocations are inefficient and impoverish future generations in order to enrich current generations.

UNIT 11

Threats And Opportunities In The Natural Environment.

The business should be aware of the threats and opportunities associated with the following trends:

- a) Natural resources - managing renewable and non-renewable resources presents a challenge to the business world. Finite renewable resources such as forests and food have to be used wisely. Companies in the forestry business are required to re-forest timberland in order to protect the soil and ensure a sufficient level of wood supply to meet future demand. Food supply can be a major problem in that the amount of durable land is relatively fixed. Finite non-renewable resources such as oil, coal and various minerals pose as serious problem. Firms using scarce minerals face substantial cost increases even if the minerals remain available.
- b) Increased cost of energy - one finite non-renewable resource, oil has created the most serious problem for future economic growth. The major industrial economies of the world are heavily dependent on oil and in the absence of new energy inputs the earth's resources will eventually be used up. The high price of energy coupled with its depletion rate has created a search for alternative forms of energy. Companies are searching for practical means to harness solar, nuclear and other forms of energy.
- c) Increased levels of pollution - pollution is the release into the environment an offensive by-product or waste. All living processes including man's economic activities consume environmental quality. Increased knowledge of the effects of depletion of natural resources has led to increased environmental awareness amongst the population. There has been an increased interest in conservation. Issues such as the depletion of the ozone layer, disposal of toxic waste have raised concern.

Government Intervention

Various government agencies play an active role in environmental protection. Companies today must comply with a host of government laws and decrees regulating their interaction with the environment. Instead of opposing all forms of regulation, business should help develop acceptable solutions to the materials and energy problems facing the nation.

THE POLITICAL ENVIRONMENT

Politics is a universal activity which affects the business world in a variety of ways. Societies often resolve conflicts over values and beliefs through their legal and political systems. Many political and legal forces directly influence the way organizations operate. Understanding political systems, institutions, and processes provides a greater insight into business decisions and into the complexities of the business environment. Given the increasing globalisation of markets, this environment has an international as well as a domestic element and the two are closely interrelated.

Business activity takes place both within and across boundaries and frequently involves governments, whether directly or indirectly. Consequently, the political and economic arrangements within the state in which a business is located and/or with which it is trading can have a fundamental impact on its operations.

Political systems

All social situations at certain times require decisions to be made between alternative courses of action. The processes involved in arriving at a solution to a problem breed conflict of opinion that are the very essence of political activity.

Politics in short is concerned with those processes which help to determine how conflict are contained, modified, postponed or settled and as such can be seen as a universal social activity that takes place at state level, corporation level, or family level. Government as a process is concerned with the pursuit and exercise of power to make decisions which affect the lives of substantial numbers of people, be it at local, regional, national or even international level. Government may also refer to the institutions through

which power tends to be formally and legitimately exercised, whether they be cabinets, parliaments, councils, committees or congress.

How governments exercise their power and the ideological foundations on which this is based, helps to indicate the nature of political system and its likely approaches to the resolutions of conflicts. Political systems range across two extremes – on the one hand, 'authoritarian' and on the other 'democratic'

Authoritarian Political Systems

In an authoritarian political system the disposition is to settle conflicts through the enforcement of rules, regulations and orders by an established authority. This authority may be an individual (e.g a monarch) or a group of individuals (**e.g.a political** party or military junta) who may have assumed political power in a variety of ways (e.g by birth, election or coup). Once in power the individual or group will tend to act so as to limit the degree of participation by others in the process of decision-making, even to the extent of monopolising the process altogether and permitting no opposition to occur. Where this is the case, a society is often described as being totalitarian e.g Nazi Germany

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Democratic Political Systems

In a democratic political system, the assumption is that as far as possible conflicts should be resolved by rational discussions between the various parties concerned, with the final solution being accepted voluntarily by all participants. The democratic solution to conflict resolution is achieved indirectly through a system of political representation and responsibility. Under such a system, the wishes and views of individuals are said to be represented in an established authority (e.g government) that has normally been chosen by the people which is accountable to them at regular intervals through a variety of mechanisms, including regular and free elections. The key features of democratic systems are:

- É A system of competing political parties
- É An electoral system and a system of regular and free elections
- É An independent judiciary

- É Mechanisms for the articulation of sectional interest (e.g pressure groups)
- " A powerful and elaborate system of political communications, independent of government control "
- Habitual processes of consultation, bargaining ., explanations, education compromise etc.
- É Freedom of opinion, expression, organisation and movement.
- É Respect for minority views
- É A representative legislative assembly, responsible for making laws, and for exercising some control over the executive branch of government.
- É Groups and individuals organised to bring pressure to bear on governments or parties or the people in pursuit or particular ideas or interests.

The role of political parties and pressure groups.

Political parties compete for political power in an election-based representative system. Parties engage in a wide range of activities designed to maintain public support and to influence government policies, both from inside and outside the legislative and executive branches of government.

do not formally seek political office. They are in effect, groupings of like-minded people who have voluntarily joined together to try to influence government thinking and policies and to represent the interests of their members. Traditionally such groups are known as lobbies.

Political parties and pressure groups fulfill a number of other important functions such as:

- É Helping to defend minority interests
- É Providing for continuity in communications and consultation between the governors and the governed
- É Assisting in the implementation of government policies and legislation

Effectiveness of government economic policies and their subsequent impact on business may rely to a certain extent on the reactions of these groups such as employer's federations, chambers of commerce and trade unions, as well as on the responses of individual entrepreneurs and consumers.

Sub National Government

Democratic government occurs at sub national as well national level and takes a wide variety of forms. Decentralisation of political authority is generally seen as beneficial, since it brings the formulation and administration of policy nearer to the people and is said to provide for decisions which are more sensitive to local needs and aspiration. One form of local administration, local government involves self-government by the people of a locality. In addition, local decision makers (councilors) are elected to oversee various activities financed by revenues raised from local sources, although the proportion from central government has risen in recent years.

Whatever form it takes, decentralisation of political power has important consequences for business activity and no analysis of a country's political systems would be complete without a review of the organisation, role and responsibilities of the main agencies involved.

The government and the law

No business, larger or small can operate without obeying laws. Government regulations affect every department of functional area within the corporation and every level of management. The impacts that regulation makes on the functional areas of corporation are described below:

- 1 Research and Development (R&D) has been affected by a host of safety and health regulations. Thus a good deal of R&D effort now goes into what is called defensive research directed toward meeting the requirements of government regulatory agencies. " . ,
The manufacturing function has been affected by a host of regulations dealing with safety depending on the industry. Some companies have to allocate a significant portion of their capital expenditures towards meeting these regulatory requirements.
Marketing is affected by regulations that deal with deception in advertising, disclosure of product characteristics believed to be of interest to the consumer, requirements for warning labels on certain products and regulations pertaining to packaging.

The personnel function is affected by regulations pertaining to Equal Employment Opportunity for women and minorities, regulations related to age discrimination and effort of government agencies to promote the hiring of handicapped people. The finance department is affected by demands for increased disclosure of information to shareholders.

UNIT 12

POLITICAL FACTORS THAT AFFECT BUSINESS ORGANISATIONS

1 The nature of a country's political system - tends to reflect certain underlying social values and philosophies which help determine how decisions are made, including decisions about the allocation of resources. The political environment of business is a dynamic environment, containing both elements of continuity and change, and practitioners of business need to be constantly aware of developments in this area, if they are to gain a greater insight into the background of business decision making.

Institutional arrangements - changes in the political environment also emanate from a country's institutional arrangements. The tendency in democratic states, for example, to have regular elections, competing political parties offering alternative policies, and a system of pressure groups, all help to generate a degree of discontinuity, which renders predictions about the future more uncertain. For a business, such uncertainty can create not only opportunities but also a degree of risk which will often be an important influence on its decisions.

External politico-economic influences - are part of the environment in which a country's governmental institutions take decisions and their impact on domestic policy and on business activity can often be fundamental e.g the European Union, World Bank, the General Agreement on Tariffs and Trade.

Political developments in other parts of the globe - the precise impact of political factors on a business tends to vary to some degree according to the type of organisation involved. Multinational corporations operating on a global scale will be more concerned with questions such as the stability of overseas political regimes than the small local firms operating in a localised market, where the primary concern will be with local market conditions. Of course there will be occasions when even locally based enterprises will be affected either directly or indirectly by political developments in other countries

Managerial Political Strategies

Managers use five major political strategies to cope with the political factors operating in their environments.

- 1. Negotiation - arriving at an agreement between two or more parties about the exchange of goods or services or about expected behaviours involves negotiation. Negotiation is the process by which two or more individuals or groups having both common and conflicting objectives present and discuss proposals in an attempt to reach an agreement. Negotiation can take place only when the two parties believe that some form of agreement is both possible and mutually beneficial.*
- 2. Lobbying - is an attempt to influence government decisions by providing officials with information on the anticipated effects of legislation or regulatory rulings. Organisations whose stability, survival, and growth are directly influenced by government decisions typically use their top managers to lobby for them. Only the largest organizations can afford to lobby on their own behalf. The most common form of lobbying is by associations representing the interests of a group of individuals or organizations.*
- 3. Alliances - an alliance is a unified effort involving two or more organizations, groups, or individuals to achieve common objectives on a particular issue. Alliances typically form around issues of economic self-interest, especially those created to influence government actions. Economic issues that motivate the formation of alliances include government policy (for example, the control of raw materials or taxes), foreign relations (for example, the control of foreign sales or investment in overseas plants), and labour relations, (for example, the control of salaries and benefits paid industrywide). The alliance strategy is often used to:*

É Oppose or support legislation, nomination of heads of regulatory agencies, and regulations issued by such agencies.

É Improve competitiveness of two or more organizations through collaboration.

É Promote particular products or services.

É Represent the interests of specific groups, such as women, minorities and particular industries.

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An alliance both broadens and limits managerial power. When an alliance makes it possible to attain objectives that a single individual or organization would be unable to attain, it broadens managerial power. When an alliance requires a commitment to making certain decisions jointly in the future, it limits managerial power. Members of OPEC periodically negotiate the price to be charged for oil. A joint venture, which typically involves two or more firms becoming partners to form a separate entity is a common example of a strategic alliance. The partners get from one another some competence that allows them to move more quickly toward their objectives.

4. *Representation - refers to membership in an outside organization, intended to .serve the interests of the member's organization or group.*
5. *Socialization - is the process by which people come to believe in the values held by .an organization or the broader society. Socialization includes formal and informal attempts by organizations to mold new employees, so they will accept certain desired attitudes and ways of dealing with others and their jobs.*

The above strategies may be used to manage and reduce political risk. Political risk is the probability that political events and actions will negatively affect the long-term profitability of an investment.

Assessing Political Risk

The political risk of conducting business in a particular country is difficult to determine. One approach is to assess the following:

1. *Domestic instability - is the amount of subversion, revolution, assassinations, guerrilla warfare, and government crisis found in a country. Such events will have a negative impact on international business in a country,*
2. *Foreign conflict - is the degree of hostility a nation shows toward others. Such hostility can range from the expulsion of diplomats to outright war e.g the invasion of Kuwait by Iraq.*
3. *Political climate - is the likelihood of a government's swing to the far left or far right politically. Managers may evaluate the nature of a political system, whether democratic*

or totalitarian, the role of the military in the political process, and the amount of control exercised by right-wing extremist groups.

- 4. Economic climate - reflects market and financial controls on investment, as well as support services and capabilities. Variables in this category are government regulatory and economic control policies (wages, prices, imports, exports), government ability to manage its own economic affairs (roads, airports, electricity, banking services, schools, hospitals, water).*

Political Mechanism

There are, apart from political strategies discussed so far, two major categories of international political mechanisms :

- 1. Protectionism*
- 2. Bribery and Extortion.*

Protectionism

Protectionism includes various mechanisms designed to help an industry avoid (or reduce) potential (or actual) competitive or political threats from abroad. The following are key protectionism mechanisms:

- *, Tariff - a tariff is a government tax on goods or services entering a country. A tariff serves primarily to raise the price of imported goods or services. As a result, domestic goods and services gain a relative price advantage.*
- É Quota - a quota is a restriction on the quantity of a country's imports (or sometimes exports). Import quotas are generally intended to guarantee domestic manufacturers access to a certain percentage of the domestic market. Quotas fix the numbers of imports entering a country and thus freeze markets. Domestic producers are under less pressure to become more productive and efficient.*
- É Subsidy - a subsidy is a direct or indirect payment by a government to its country's firms to make selling or investing abroad cheaper for them and thus more profitable.*
- É Cartel - a cartel is an alliance of producers engaged in the same type of business, formed to limit or eliminate competition e.g OPEC (Organisation of Petroleum*

Exporting Countries). A primary objective of any cartel is to protect its members' revenues and profits by controlling prices and output.

Advocates of protectionism claim that it protects home-country industries and jobs against unfair competition from countries with subsistence wages and special subsidies. Opponents argue that it works against consumers' interests by raising prices.

Bribery and Extortion

*A bribe is an improper payment (not always illegal in some countries) made to induce the recipient to do something for the payer. By offering a bribe, the payer hopes to obtain a special favour in exchange for something of value (money, a car etc). **Extortion** is the obtaining of payment in response to some kind of threat. It is a payment made to ensure that the recipient doesn't harm the payer in some way. The purpose of extortion is to obtain something of value by threatening harm to the payer. A situation illustrating extortion is one in which a company's product sits idle on the dock of a foreign port until a customs official's demand for a certain payment is met.*

The practices of bribery and extortion take place throughout the world. These practices are common in Kenya, Nigeria, Algeria, Iraq, Saudi Arabia Bolivia; ; Indonesia and Mexico. These countries define some forms of bribery and extortion as acceptable, as an appropriate and expected form of gift giving.* ;

ASSIGNMENT 4

Analyse Zambia's technological environment and highlight its challenges on business organizations. >É **Due on 15th November**

PART FOUR

UNIT 13 ETHICS IN MANAGEMENT

ETHICS AND BUSINESS ETHICS

Questions of organisational social responsibility and responsiveness depend on the ethical standards of managers who run businesses and other types of organisations. The question of ethics in business conduct has become one of the most serious challenges to the business community in modern times. Ethics are of great concern to business persons for the following reasons:

- (i) The practice of business depends for its very existence on the moral behaviour of the vast majority of citizens. Imagine trying to practice business in a society where lying, stealing, and other immoral actions were permitted. Business could not be practiced in such a society, for, at a minimum, business requires a society where contracts are honoured and where private property is respected. Bribery, kickbacks, fraud, and monopolistic activities have all been judged inappropriate, because they are immoral practices.*
- (ii) There are and always have been special moral norms for business activity itself. The norms are usually devised by business persons and they include: Product safety and quality, truth-in-advertising, employee rights to privacy, employee health and safety, good hiring and promotion practices, good working conditions, fair compensation, fair administration of rules, fair treatment, fair pricing etc. (iii) The organisation is ultimately responsible for the consequences of its manager's decisions. Managers therefore, are expected to act ethically.*

The term ethics is defined as a set of moral principles that governs the actions of an individual or a group. Ethics vary greatly from person to person and situations to situation, as well as from culture to culture. They are based on our society's ideas of right and wrong. Family, friends and experiences influence individual's ethics and behaviour.

Families especially parents have the first chance to influence a child's ethics. Parents usually put a high priority on teaching their children certain values, which include religious principles. Most parents also try to teach their children to obey society's rules and to behave well toward other people.

As children grow and are exposed more to other children, these friends begin to have more and more influence on ethical behaviour. Indeed, the values of the group may become far more important than those of the larger society. Such behaviour also applies to the business world. Many unethical business behaviours are fostered by a company's environment in which such practices are acceptable.

Finally, experiences can increase or decreased certain types of ethical behaviour and beliefs about what is right and wrong. A child punished for telling lies learns that telling lies is wrong.

Likewise, a company manager who goes to jail for misrepresenting the company's financial position will probably have a new understanding of business ethics.

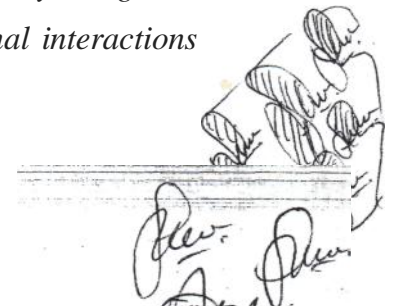
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ETHICS AND LAW

Law and ethics should not be viewed as synonyms. Laws are codified rules of behaviour enforced by courts. Law does not cover every area requiring ethical guidance. A body of Law that covers every possible area of behaviour would be unworkable. There always will be a need to complement compliance with the law with ethical judgement. Slavery, for example, was legal, prior to being abolished on ethical grounds.

MANAGERIAL ETHICS

Managerial ethics are standards of conduct or moral judgement used by managers of organisations in carrying out their business. Such standards arise from the general norms and values of society; from an individual's experiences within family, religious, educational, and other types of institutions; and from interpersonal interactions with others.



ETHICAL APPROACHES

Deciding which actions are ethical and which are not is an extraordinary difficult task. Many persons in society are claiming that some business practices traditionally considered morally acceptable are no longer considered. Ethics philosophers recognise "four fundamental approaches of ethical reasoning for business managers.

UTILITARIAN APPROACH (TELEOLOGICAL) - JEREMY BENTHAM

This approach judges the effects of a particular action on the people directly involved and does so in terms of what provides the greatest good for the greatest number of people. Utilitarian holds that an action is ethical if it produces the greatest good for the greatest number of people. Its premise is that ethical actions maximise happiness.

ESSENTIAL FEATURES OF UTILITARIANISM (a)

Maximisation of the Good

Utilitarianism asserts that it is always important to produce the greatest possible balance of value for all persons affected. The obvious means to maximization or optimal productivity is efficiency. Efficiency is a means to higher profits and to lower prices and the goods and services produced are intended to promote the greatest good of the greatest number.

Intrinsic Goodness

Utilitarian believe that some things are good in themselves and not merely good as a means, to something else. What we really ought to seek in life are certain experiences and conditions that are good in them without reference to their further consequences, and all values are ultimately to be gauged in terms of these intrinsic goods.

Health,

friendship, and freedom from pain would be included among such values. An intrinsic value, then, is a value in life that we wish to possess and enjoy just for its own sake and not for something else that it brings.

(c) The Measurement of Goods

Utilitarian are committed to the measurement and comparison of goods, and emphasises the need to measure pleasurable and painful states and to compare one person's pleasures with another's in order to decide which is greater.

(d) *The Concept of Utility*

Bentham's principal of utility states that an action is moral if it produces the greater balance of pleasure over pain for the widest community affected by the action.

John Stuart Mill adds that the purpose of ethical action is to achieve the greatest happiness for the greatest number of people. Modern utilitarianism argues that each individual has a personal set of preferences, and ethical behaviour is that behaviour which maximizes or optimises everyone's preferences.

Act and Rule Utilitarianism

The utilitarian approach has two branches:

(i) *Act Utilitarian - argues that in all situations one ought to perform that act which leads to the greatest good for the greatest number. Rules or practices are simply rules of thumb; they are guides to the actions that generally lead to the public good. An act utilitarian would not hesitate to violate such rules if he or she thought that in the circumstances such a violation would actually lead to the greatest good for the greatest number. Act utilitarian consider every circumstance open to any cause of action, and thus no case is closed by rules.*

(ii) *Rule Utilitarianism - states that ethical actions and judgments should conform to firm and publicly advocated moral rules. Rules thus have a central role to play in determining correct behaviour. Rule utilitarian argue that allegiance to the rules enables us to avoid acts of industrial injustice.*

CONTRIBUTION

This approach has proved fruitful to those in business who are inclined toward the view that public policies and business activities should be closely related to the subjective preferences of those served by such policies and activities.

CRITICISMS OF UTILITARIANISM

One major criticism of utilitarianism centres on the commitment to the quantification and measurement of goodness. It is difficult to measure truth, goodness, and virtue. A related problem is the comparison problem. It is difficult to quantify and compare individual pleasures or units of happiness.

Utilitarianism has also been challenged on the grounds that it can lead to injustice. The tyranny of the majority can allow injustice for a small minority. Another criticism is that utilitarianism provides no guidelines for the ordering of preferences or for dealing with conflicts between preferences.

MORAL RIGHTS APPROACH - IMMANUEL KANT

This approach holds that an action is good if it is done for the sake of what is right. It is argued that every person has a duty to do what is right, to respect others, and treat them as free, rational beings. Moreover it is often argued that employers stand in special relationships to employees or to their customers and that, as a result corporations have special moral obligations to their employees or customers, independent of the general good. Isfoflefn advocates of this model; identify several rights that individuals have in their work environments. These rights include;

- 1. Life and Safety - the individual has the right not to have her or his life endangered.*
- 2. Truthfulness - the individual has a right not to be intentionally deceived by another, especially on matters about which the individual has the right to know.*
- 3. Privacy - the individual has the right to do whatever he or she chooses to do outside working hours and to control information about his or her private life.*
- 4. Freedom of conscience - the individual has the right to refrain from carrying out any order that violates those commonly accepted moral or religious norms to which the person adheres.*

5. *Free speech - the individual has the right to criticise the ethics or legality of corporate actions so long as the criticism does not violate the rights of other individuals within the organisation.*
6. *Private property - the individual has a right to hold private property, especially insofar as this right enables the individual to be sheltered and to have the basic necessities in life.*

According to this view, an ethical duty of managers is to ensure respect of these rights.

JUST LOCKE

This approach argues that managers have a duty to be guided by equity, fairness, and impartiality in their interactions with others. Locke tried to establish universal principles of a just society. He argued that individuals have certain natural rights and a just society must respect those rights. Advocates of this approach identified the following principles of justice that can be applied in work environments:

1. *Fair treatment: - (distributive Justice) persons who are similar to each other in relevant respects should be treated similarly; persons who differ in some respect relevant to the job they perform should be treated differently ;in proportion to the difference between them.*
2. *Fair administration of rules - (procedural justice) rules should be administered consistently, fairly and impartially.*
3. *Fair compensation (compensatory justice) individuals should be compensated for the cost of their injuries by the party that is responsible for those injuries*
4. *Fair blame: - individuals should not be held responsible for matters over which they have no control*
5. *Due process - individuals have a right to a fair and impartial hearing when they believe that their personal rights are being violated.*

UNIT 14

INDIVIDUALISM APPROACH

This approach states that acts are moral when they promote the individual's best long-term interests. If an action promotes individual's interests, it is ethical, if it does not, it is unethical. Each individual is held to have potentialities. Each person has a right and a responsibility to develop, those potentialities. Actions that help achieve that purpose are ethical, assuming the actions do not infringe on the rights of others. Individualism approach holds that human beings have a right and responsibility to become all they are capable of becoming. It is argued that human nature is good, but individuals can become bad if their right and responsibility to fulfil their potential is blocked.

CRITICISMS

- 1. It is difficult to demonstrate that every human being has some potentialities.*
- 2. In view of man's inhumanity to man, it is not credible to argue that human nature is basically good.*

MANAGING ETHICS

Given the increasing concern about ethics in organisations, a growing number of companies are attempting to provide guidance for their managers. At the core of many corporate efforts is the development of a corporate code of ethics (often called a code of conduct)

A code of ethics is a written statement of a company's beliefs, values and norms of expected behaviour; Ideally a code of ethics should.

- (1) Give employees direction in dealing with ethical dilemmas*
- (2) Clarify the organisation's position regarding areas of ethical uncertainty. É?*
- (3) Overall help achieve and maintain ongoing conduct that the organisation views as ethical and proper.*

Codes of Ethics, training, top management involvement, knowledge of the Law, and self-analysis are all needed to properly deal with ethical issues. As more global competitors and

business transactions in other countries increase, more ethical dilemmas will appear. What's considered corruption in Zambia may be perfectly acceptable in Nigeria. Managers must be aware of the legal aspects of business, social responsibility expectations and ethics. Failing to be aware of the law, to be socially responsible, and to make ethical decisions could result in lost market share, fines, imprisonment or inability to conduct business.

Apart from establishing codes of ethics, companies can use a variety of techniques to improve their ethical performance. These techniques include: whistle blowing, Committees, task forces and training programs, (i) Whistle Blowing

Whistle blowing occurs when an employee discloses an illegal, immoral, or unethical action committed by a member of an organisation. Whistle blowing should be encouraged.

(ii) Committees or Groups oversee programs for encouraging ethical behaviour, reviewing violations of codes of ethics and taking action on whistleblowers, observations of illegal, immoral, or unethical actions.

(iii) Training Programs

Organisations must provide training for managers, professionals and other employees

at all levels, especially for those in sensitive portions such as purchasing, waste disposal, personnel Research and Development, sales and manufacturing where social responsibility issues could be involved.

ETHICAL GUIDELINES FOR MANAGERS

James O'Toole has offered the following ethical guidelines for managers:

- 1. Tell the Truth - telling the truth is important in building trust with relevant stakeholders*
- 2. Show respect for people - respect for the individual should be a guiding principle in all organisations*

3. *Stick to the Golden Rule - the Golden Rule, "Do unto others as you would have them do unto you", provides a benchmark for evaluating the ethical dimensions of business decisions. Translated into business terms, it means treating individuals fairly, just as the managers would want the business treated if it were an individual.*
4. *Premium non nocere (above all do no harm). This is the bottom-line ethical consideration, which should be adopted by business.*
5. *Practice participation, not paternalism - This principle is aimed at learning about the needs of relevant stakeholders, rather than deciding what is best for them.*

A MANAGEMENT DILEMMA

Management's major ethical dilemma centres on the potential conflict between economic and social performance. Can the good of society be served and management still operate a profit? The firm's obligations to employees, customers, stockholders and the general public are part of the social performance. In certain instances unproved economic performance, such as increased sales, can occur only if one or more groups suffer a loss. How can the managerial dilemma of balancing economic and social performances be resolved? Managers must reconcile competing values in making decisions. Their decisions have consequences for

- (1) *Themselves*
- (2) *The organisation that employs them and*
- (3) *The society in which they and the organisation exists.*

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One writer proposes that the following principles can guide managers in decision making: (i) Place the interests of society before the interests of the organisation (ii) Place the interests of the organisation before managers' private interests (iii) Reveal the truth in all instances of organisational and personal involvement.

The three principles provide guidelines but not answers. The manager must determine the relative benefits to society, company, and self. The advantage of a pluralistic approach to ethical decision-making is that the decision maker, with intentions to do right, has the basis for evaluating decisions.

SOCIAL RESPONSIBILITY

Business is normally conducted within a social network, which is found outside, and inside a business. The organisation interacts with a large number of parties such as customers, competitors, employees, suppliers, creditors and stockholders in its environment. Each of the various groups may be affected by the organisation's actions and the parties in turn may also take actions that will affect the organisation. For example, customers seek fair prices and satisfaction from their purchases, while governments, levy taxes on business. Within the business employers want to be treated humanely and with dignity. In addition they look for a work place that is safe and healthy, that respects their privacy, that provides meaningful work and that offers some security for retirement years. É...

Business cannot escape from society, and society cannot exist without business. All business decisions have a social impart V

Social responsibility is the obligations of the organisation's management to make decision, and take actions that will increase the welfare and interests of society as well as the organisation.

EVOLUTION OF SOCIAL RESPONSIBILITY

The concept of social responsibility has evolved in conjunction with the following crises or major transformations in industry:

- 1. The first was the entrepreneurial era of the late (19th). The enormous business empires of some successful entrepreneurs had tremendous economic power. But abuses of that power brought public outcries. It was during this ear of labour kickbacks, discriminatory pricing and bad business practices that ordinary citizens and*

governments first became concerned about business methods. This concern manifested itself in the nations' laws forbidding certain ways of doing business.

The second crisis occurred during the world's great economic depression, which resulted into many people losing employment and Banks failing in the 1930s. People blamed business, greed and out of the economic crisis emerged new laws that outlined a social agenda for business.

Finally, the social unrest of the 1960s - 1970s which resulted from harmful products and harm caused to the environment brought new changes of business as a negative force in our society, Government regulation again increased, forcing health warnings on cigarettes, stricter environmental protection standards and a host of other restrictions.

APPROACHES TO SOCIAL RESPONSIBILITY

There are three major contrasting perspectives on corporate social responsibility: the traditional, stakeholder and affirmative social responsibility,

TRADITIONAL SOCIAL RESPONSIBILITY

This view is associated with economist Milton Friedman and others who believe that society creates firms to pursue two primary purposes; to produce goods and services efficiently and maximise profits, so long as business stay within the rules of the game. Friedman favours the free market system, which in his view is the best system for regulating the conduct of a business, and it is up to society to establish the rules within which it operates. Proponents of this view offer the following arguments against social responsibility: 1. Businesses are accountable to their shareholders, the owners of the corporation. Thus

management's sole responsibility is to serve the shareholders' interests by managing the company to produce profits from which shareholders benefits.

UNIT 15

STAKEHOLDER SOCIAL RESPONSIBILITY

According to this philosophy, managers must be responsible to certain groups that are affected by, or can affect, the company's objectives and interests. Such groups include shareholders, customers, government agencies, competitors, unions, employees, trade associations, important suppliers, protest groups and others. What is good for the company, it is argued, is good for society. The stakeholder philosophy also makes the accumulation of capital a management priority. Capital accumulation is seen as the basis of social responsibility because it is essential for the creation of future jobs. Focusing on the customer helps a company protect its corporate image and economic interests, protecting the interests of stakeholder groups reduces conflict between business and government regulatory agencies.

Shareholders - there is a general agreement that the primary role of management in publicly held corporations is to earn profits and dividends for shareholders. The shareholder plays a crucial role of providing the capital that allows the corporation to survive and grow. As a result, shareholders expect management to operate the business in such a way that the shareholders are provided with the largest possible return on their investment

Community - An organisation's community is its area of local business influence. Most communities have social needs that extend beyond the available resources. As a result, businesses are likely to receive more requests for assistance than it is reasonable to honour, necessitating priorities in giving. At the same time, businesses need various forms of support from communities, including an adequate transportation system, taxes that are equitable and do not discriminate for or against business, adequate school and recreational facilities and complete public services, such as police, fire protection, sewage, water gas, electric services etc. Because of these complementary needs, businesses and the communities in which they operate are somewhat interdependent and both can function more effectively with a high level of mutual support.*

Customers - Social responsibility toward customers fall into three categories: providing quality and safe products, pricing these products fairly and being truthful in advertising. Much of the current interest in business responsibility toward customers can be traced to the rise of consumerism. Consumerism is a form of social activism dedicated to protecting the rights of consumers in their dealings with businesses. The first formal declaration of consumer - rights protection came in the early 1960s. At that time, president John F. Kennedy identified four basic rights that consumers could draw on when dealing with business. These rights have now been backed by state Laws.

- (i) Consumers have the right to safe products. For example, when you buy a new paint sprayer, it must be safe for use in spraying paint. It must come with complete instructions on how to use it. And it must have been properly tested by its manufacturer
- (ii) Consumers have the right to be informed about all relevant aspects of a product. Food products must list their ingredients. And banks must tell you exactly how much interest you are paying on a loan.
- (iii) Consumers have the right to be heard. Today, many companies have complaint offices. When companies refuse to respond, consumer protection agencies and consumer interest groups may intervene
- (iv) Consumers have the right to choose what they buy. There should be free and open competition among manufacturers. Any attempts by business to block this competition will affect the variety of products available. Interfering with competition can also result in illegal pricing practices. Collusion among companies - i.e. getting together to agree on prices is against the Law.

Employees - a company that provides its employees with equal opportunities without regard to race, sex etc is meeting its social responsibilities. Other activities such as recruiting, hiring, training, promoting and compensating are also the basis for social responsibility

toward employees. In addition to their responsibility to employees as resources of the company, firms have a social responsibility to their employees as people. Firms that accept this responsibility make sure that the work place is safe, both physically and emotionally. They do not tolerate an abusive manager. Firms that ignore their responsibility to employees leave themselves open for Lawsuits.

Society - It is argued that society is entitled to more than mere provision of goods and services. The following arguments are advanced in favour of social responsibility to society.

(i) Business exist at society's pleasure; so for their own legitimacy and survival businesses should meet the expectations' of the public otherwise, they are likely to eventually suffer financially and go out of business. This is related to the iron Law of responsibility which states that in the long run, those who do not use power in a manner that society considers responsible will tend to lose it.

(ii) While government organisations stretch their budgets to limit, many large businesses often have surplus revenues that could potentially be used to help solve social problems. Business is considered to be the institution with the financial and human resources to solve social problems.

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(iii) Organisations that make clear and visible contributions to society can achieve enhanced reputations and gain greater market share for their products.

AFFIRMATIVE SOCIAL RESPONSIBILITY

This philosophy holds that managers have a responsibility to promote the mutual best interests of the firm and its various stakeholders, including the general public. It, obligates managers to anticipate changes in the social environment in which they operate, and it requires them to blend the goals of the company with the general and diverse interests of society as a whole. Management that adopts this philosophy must address the concerns of a wide range of groups as well as plan for the future needs of society. Some managerial obligations under the affirmative philosophy include:

1. *Maintaining and improving current standards for protecting the physical and social environments, compensating victims of pollution and other corporate - related activities; evaluating possible negative effects of the firm's planned actions on the public and attempting to eliminate or reduce negative effects prior to implementation.*
2. *Accepting responsibility for solving current problems; willingly discussing activities with outside groups; making information freely available to the public, accepting formal and informal inputs from outside groups in decision making, and be willing to be publicly evaluated for its various activities.*
3. *Showing willingness to work with outside groups for good environmental laws; promoting honesty and openness in government and in the firm's own lobbying activities.*
4. *Taking a definite stand on issues of public concern, advocating ethical norms for all in the firm.*

ARGUMENTS FOR SOCIAL RESPONSIBILITY

Agitators of business involvement in social affairs argue their case on the following grounds, among others:

- (a) *Business enterprises contribute to many of society's social problems. They, for example, pollute water and air and distort the natural beauty of society's landscapes. As such, they should accept to work with other societal members to correct these problems.*
- (b) *Although short-run costs of social responsibility may be high, the long-run benefit will usually be greater. Long-run profit is normally the result of improved business image that accompany socially responsible behaviour.*
- (c) *Social involvement by businesses can greatly help in solving some of society's pressing problems and improve the general quality of life. Business, too, can benefit from improved social and economic welfare since this will result in a better community in which to conduct business operations.*

- (d) *An enhanced public image can, among other things, help a business gain more customers, better employees, and society's approval of its existence - but public image, and the benefits that go with it, can only be gained through active participation in social programmes.*
- (e) *Society's needs and expectations are continually changing as a result of socio-cultural, political, and other changes. This places an obligation on business concerns to adjust the variety and nature of their outputs (social and economic) in order to pace up with the changing needs and expectations of society.*
- (f) *Business enterprises are members of society in the same way that all persons and other institutions are members. As such, they should accept the obligation to act responsibly in order to maintain and preserve the values, rights, freedoms, and interests of other members.*
- (g) *Businesses have large amounts of power; they affect society's cultural, social, economic and other environments. As such, they should exhibit great amounts of responsibility to society that should match their power.*
- (h) *Socially responsible behaviour may induce the government to scale down, or even eliminate, strict regulatory laws designed to police business activities. But if businesses choose to be socially irresponsible, society may be prompted to press for even stricter government surveillance of their activities.*
- (i) *Businesses generally have substantial pools of financial, human, and material resources. Since many social programmes often lack adequate stocks of these resources, business contributions and assistance would be greatly commended.*
- 0) *If businesses avoid dealing with social problems, they may find themselves constantly entangled in consumer protests, lawsuits for polluting the environment, and uncomfortably close government surveillance. The amount of time that may be required to quench these problems may be so excessive that little time will be spared for economic activities.*

ARGUMENTS AGAINST SOCIAL RESPONSIBILITY

Those who argue against business participation in social programmes do so on the following accounts, among others:

- (a) Businesses are more socially responsible when they attend strictly to the profit objective and leave other activities to other institutions because, compelled by competitive forces, they will strive to reduce costs and prices and increase the assortment and quality of products - all to the benefit of society.*
- (b) Businesses are very likely to add the costs incurred on social programmes to the prices of their products, thereby hurting society.*
- (c) Involvement in social programmes is very likely to lead to higher costs and prices, making local businesses less competitive and sell less in international markets. This may lead to a weakened international balance of payments in the home countries of the socially responsive businesses.*
- (d) Combining economic and social actions may breed internal conflict and confusion of goals within businesses.*
- (e) Emphasis on social programmes may cause the public to harbour unrealistic expectations that may be impossible for businesses to accomplish.*
- (f) Many business people lack the perceptions and skills to work effectively with social issues because their abilities are primarily economic.*
- (g) Combining social activities with economic activities will give business firms excessive power.*

There are many ways in which business organisations can contribute to the improvement of the social welfare of society. They include:

- (a) Supporting society's efforts to rehabilitate mentally deranged, physically handicapped, and other disadvantaged members of society.*
- (b) Making generous contributions to educational institutions, thereby helping to prepare the citizens for tasks that will benefit society;*

- (c) *Helping to restore the natural beauty of society's human-defaced landscapes, using the limited natural resources rationally, and helping in the reduction of air, water, and solid-waste pollution to tolerable levels; and*
- (d) *Engaging in more active partnerships with the government and society's other major institutions to help solve social problems irking humanity today.*

Society expects business organisations to consider social responsibility when making their policies and decisions. In other words, society does not only expect business to produce needed goods and services; it also expects them to conduct their economic operations in socially responsible ways. The need here is to strike a harmonious balance between economics and social responsibility.

Therefore, the question should not be whether business organisations have to be socially responsible; nor should it be whether they have to be economically efficient. Society wants them to achieve the two simultaneously - high economic productivity and high social performance. Businesses should seek to strike this balance for two reasons, among others: first, it is morally the right thing to do; and, second, society will no longer condone business practices that are contrary to public expectations.

ASSIGNMENT 5

Identify the major stakeholder groups frequently mentioned in conjunction with social responsibility To what extent do these stakeholder groups influence business organizations?

Due on 15th December 2007

PART FIVE

UNIT 16 BUSINESS AND ITS VARIOUS PUBLICS

INTRODUCTION

There is need for every business organisation to create and maintain harmonious relations with the societal groups that constitute its public. The major segments of an organization's public are usually employees, labor unions, host communities, competitors, the government and local authorities, consumers, suppliers, and banks.

Management should state in clear terms the various publics that are necessary to the success and operations of the organisation, and the need to maintain positive and mutually beneficial interaction with such publics. This should be communicated to all levels of the organisation to ensure that organizational members do not blunder in their dealings with these publics.

Employees

Employers need to foster and maintain good relations with their employees. Poor employer-employee relations can very likely cause employees to resort to various forms of behavior such as deliberate shoddy performance, or absenteeism..Some managers -disregard the fact that employees are their most important resource. They fail to provide the opportunity for employees to exploit their potential and contribute to organizational effectiveness. Managers and their organizations should recognize that their greatest potential for protracted growth, profits and goodwill lies in the talents and efforts of their employees.

Labor Unions

Unions exist primarily to counteract management's unilateral power to determine wages, hours of work, and other conditions of service. They serve important functions such as compelling management to adopt fair and unbiased employment practices. Without unions, most employees today would, most probably, have been subjected to unsatisfactory conditions of service. This does not imply that all employers cannot adopt fair employment practices in the absence of unions. On the contrary, many employers are socially responsible and can attend to employees' social and economic welfare without any outside pressures. But

since it is difficult to determine each employer's ability to act fairly on matters concerning employees, unions are perhaps necessary for regulating all employers' employment practices.

In addition, unions enhance the improvement of quality of work life (QWL). QWL is the degree to which organizational members are able to satisfy their important personal needs through their experiences in an organisation. There are a host of important aspects that are usually considered in efforts to improve QWL in organizations. They are:

- É Fair and adequate pay
- É Competitive retirement and other benefits
- É Clean and safe work conditions
- É Assurance of continuity of employment
- É Consideration of the employee as a growing, developing human asset of the organisation
- É A working climate that fosters a feeling among employees of belonging to and being needed in the organisation.
- É Employee participation in decision making
- É A recognition of employee's rights
- É A balance between working life and other parts of human life, leisure, education and family life.

One of the feasible collaborative approaches to enhancing union-management cooperation in improving the QWL is the formation of a union-management committee. The committee, which should be composed of representatives of the union and those of the employer, should be responsible for evaluating and reviewing all the corporate programs aimed at improving the QWL.

Workers' needs, demands, and expectations have, in general changed over time. The following developments have contributed to this change:

- É Collective bargaining - in most countries, employees and their unions or associations have acquired broader and greater collective bargaining power to counteract management's unilateral power to determine wages, hours of work and other conditions of service.

- É Education - workers in most countries have generally become more and better educated with the proliferation of both formal and informal education and training.
- É Information - workers are more and better informed about their rights, among other things, through television, newspapers, seminars, workshops and the radio.
- É Freedom - in independent countries, employees have assumed more rights, freedoms, and privileges as members of sovereign states.
- É .Dual-career families - with the appearance of more and more married women in organizational settings, employers are expected to consider employees' spouses when making certain decisions, such as those pertaining to transfers.

Business organizations, therefore, need to monitor the trends and developments in their environment that are likely to alter employees' job attitudes and behavior. This is necessary to facilitate timely adjustments in organizational policies and procedures to suit the changing needs, and expectations of their employees.

Host communities

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Because businesses are part and parcel of the local communities in which they operate, they should logically participate in the various civic activities of these communities. They should, for example, work hand in hand with other institutions "in stamping t)ut crime, making charitable contributions to the needy etc. A business that contributes to the improvement of a community's quality of life will, as a result, have a better community in which to conduct its operations.

Competitors

It is an obvious fact of business that competitors win away some of a business's existing and potential customers. Businesses should seek to work hand in hand with their competitors to better serve the needs and requirements of society. Business must not fight to eliminate their competitors. Infact, competition is desirable. A fair was against competition can be waged only through fair product prices, customer credit facilities, amicable customer relations, good customer service, product quality etc.

The Government and Local Authorities

Business should develop and maintain satisfactory relations with governmental units, such as tax departments, public health, and regulatory agencies. Good and amicable relations with such agencies are likely to lead to the scaling down of governmental surveillance of the activities of businesses.

Sound relations with local authorities (the is district councils) is of equal importance. Such issues as those pertaining to licences and public health and safety, among others, should be attended to if a business ever wishes to win the confidence and trust of local authorities.

Consumers

Business must recognise the fact that consumers constitute the most critical public with whom they need to develop very cordial relations. A business that has poor relations with its customers cannot possibly succeed. Consumers in any given society have certain rights. The most prominent of these rights are:

- É The right to safety from product-related hazards.
- É The right to information about products
- É The right to redress and reject unsatisfactory products.
- É The right to choose among a variety of products in a market free from control by monopolistic sellers.
- É The right to be heard in governmental decision making that affects consumers.
- É The right to consumer education regarding products in the market place

With respect to consumers, businesses face several challenges:

- É Consumers are generally exposed to high-quality foreign products. Unless businesses improve the quality of their products, therefore, local markets will continue to be dominated by foreign products

- É The consumer movement is gaining momentum; businesses, therefore, face a rough future if they cannot improve the quality of their products, charge fair prices, and engage in honest advertising.
- É Businesses should create a consumer affairs unit preferably within the marketing department. Such a unit should be charged with the responsibility of assessing consumer dissatisfaction and complaints regarding products brought from the organisation.
- É A further challenge is for business to Consider making voluntary recalls of any defective products from customers and replacing them with better products, or reimbursing the customers with the money they spent on the products.

Suppliers

Business needs to develop and maintain harmonious relations with suppliers of equipment, raw materials, services or merchandise. Such relations, if developed and maintained, can greatly contribute to business success. -

Banks

A business's bankers also constitute one of its most important publics, especially when it comes to securing funds to finance fresh investment projects, acquire capital equipment etc. A business that has poor relations with its bankers will usually find itself unable to obtain the loan capital that it may require to finance its operations. -

The concept of business stakeholders

Each of the various publics of business discussed, have a stake in the existence and activities of business. Business stakeholders refers to societal groups that are, or are likely to be affected by a given business's decision policies and/or actions.

No doubt, business can not exist without society, and society depends on business for the provision of various goods and services. Society expects business organisations to consider the effects of their policies, decisions and actions on their various publics.

ASSIGNMENT 6

Identify the major stakeholder groups frequently mentioned in conduction with social responsibility To what extent do these stakeholder groups influence business organizations?

Due on 15th December 2007

PART SIX

UNIT 17 MULTINATIONAL BUSINESS AND SOCIETY

INTRODUCTION

A multinational company (MNC) is a firm engaged in a business in two or more countries. Such organizations designated as multinationals should meet the following criteria:

- É Operations are conducted in at least 6 different countries
- É At least 20% of the firm's assets and/or sales from business are in countries other than that where the parent company is located
 - Management has integrated, global orientation
- É Resources are allocated without regard to national boundaries
- É The firm's organization structure cuts across national boundaries
- É Personnel are transferred throughout the world
- É Management takes on a broad global perspective É it views the world as interrelated and interdependent.

Types of Multinational Corporations

There are three philosophical approaches to managing MNCS that largely determine how such firms conduct global business. The most common ones

1. Geocentric Corporations - these are geographically centralized firms that rely on highly skilled groups of executives who direct operations from headquarters in the mother country. Geocentric executives adopt a global perspective to make strategic decision that influence worldwide operations. The top-level structure reflects a very large matrix organization. Geocentric MNCS that rely on matrix management require exceptional information techniques that can assimilate opinions and co-ordinate decisions among several dozen executives . Moreover, executive team must have an elaborate network of staff experienced in host-country operations. Geocentric firms systematically;are more profitable but have constrained growth due to the burden of decision-making for central staff.
2. Polycentric Corporations - are multinationals that endorse a philosophy based on decentralization. These MNCS have a number of decision-making centers remote from the firm's headquarters. Often each host Country has a subsidiary organization with

autonomy for independent operations. Polycentric firms, while less profitable, tend to expand more rapidly and have a higher percentage of income from oversea operations. Polycentric managers react more expediently to host country problems and operational decision,

3. Ethnocentric Corporations - ethnocentrism is the fundamental belief in the superiority of one nation (race, creed, or culture) over others. Many ethnocentric multinationals operate subsidiaries in less developed countries. Just as individuals take pride in being winners, companies take pride in being successful.

Some of the largest multinational corporations include : British Petroleum, Ford Motor^ IBM, Sheil Oil, Unilever South East Africa, ITT, Philips etc.

Many people believe that, with resources, technology, food, and trained personnel unevenly distributed throughout the world, international business activities have the potential for distributing goods and services more equitably and for improving standards of living for all people. International business activity has caused the countries of the world to become more closely interrelated, people in all countries are more aware of what is happening in other parts of the world.

Strategies for Achieving International Involvement

The ways firms organize -for international involvement are influenced by the numerous international strategies that can be employed. These strategies include: **1. Exporting**

Strategy

The exporting strategy involves an organization's maintaining facilities within a home country and transferring goods and services abroad, for sale in foreign markets. An increasingly popular variation on straightforward exporting (or importing) is countertrade, a form of trade arrangement in which the export sale of goods and services by a producer is linked to an import purchase of other goods and services eg PepsiCo's exporting of syrup and related soft drink items to the Soviet Union in exchange for vodka

2. Licensing Strategy

The licensing strategy involves an organization (the licensor) in one country making certain resources available to companies (licensees) in others so that they can participate in the production and sale of its goods and services abroad. This usually involves a contractual arrangement whereby the licensor provides its patents, trademarks, manufacturing expertise, or technical services to the licensee, in return for which the licensee pays a royalty on the sale of the product. Many U.S and Canadian book publishing companies use this strategy with foreign publishers. For a royalty, the foreign publisher obtains the right to translate a book into another language and publish it or to print, market, and distribute the book in another country.

The licensor does not have to worry about making major capital investments abroad or becoming involved with the daily production, technical, marketing, or management details of the international operation. The licensee runs those operations, after importing know-how or the opportunity to legally sell a product, service or process that is owned by the licensor.

3. Franchising Strategy

Franchising strategy, the parent organization (franchiser) grants a foreign company or individual (franchisee) the rights to use its name and produce its product or service and provides its franchisee with a complete assortment of materials and services for a fee. -There is usually active involvement by the franchiser in training and monitoring and controlling the actions of the franchisee. Coca-Cola is an example of a global franchiser.

4. Alliance Strategy

An alliance strategy is pursued when two or more organizations unite in order to attain common objectives. International organizational alliances take many forms, from straightforward marketing agreements to joint ownership of worldwide operations.

The formation of alliances, especially joint ventures, has been stimulated by a variety of forces: The need to share and lower the costs of high-risk, technology-intensive development projects, such as computer systems

- É The desire to gain economies of scale by sharing the large fixed-cost in investments for world-scale plants in low-growth industries, such as steel and appliances.
- É The desire to learn another firm's technology and special processes or to gain access to distribution channels.
- É The desire to influence the evolution of competitive activity in the industry.

5. Multidomestic **Strategy**

A multidomestic strategy involves the firm in global operations to adjust its products and practices to individual countries or regions, treating each uniquely. Under a multidomestic strategy, management stresses the uniqueness of each region or nation. Each overseas subsidiary is somewhat independent. Each is a profit center and contributes earnings and growth in line with its market opportunity. The world headquarters coordinates financial controls and broad marketing policies worldwide.

6. **Global Strategy**

A global strategy stresses operating with worldwide consistency and standardization and low relative cost. Under global strategies, subsidiaries in various countries are highly interdependent in terms of objectives, practices and^Aoperations; [?]A"S;?mueh-vas possible, top managers focus on mutual coordination and support of the firm's worldwide activities.

Factors Affecting the Management of Multinationals.

Companies that conduct business in only one region have relatively few problems of understanding their external environment. However, the MNC, because it operates in many different countries, finds management of its activities challenging and complicating. MNCs face economic cultural and political issues. It is difficult for individuals or entire firms to be knowledgeable in all of these areas, but the external environment must be studied or the firm can find itself in major difficulties. The success or failure of the MNG is determined largely by how they respond to their external environment. The MNG must deal with the environment not only of the parent company (location of headquarters) but of all host countries (location of operational units). As with small businesses, most of the external

environment problems include economic, political/legal, and social factors. Managers should develop sophisticated skills to deal effectively with this environment.

Economic Factors

The economic factors of the external environment of the various host countries is of prime importance to the management of MNC. A number of crucial questions must be answered:

- É What are income levels, growth trends, inflation rates, balance of payments, gross national product and the number and nature of economic institutions?
- É Is there a local banking and financial resource that can be tapped?
- É Are there organized labor unions, planning agencies and the necessary service structures for power, water, housing and communication?
- É How stable is the host nation's currency?

A major economic issue that affects MNCs is the stability of the host country's currency. Currency fluctuations may reduce the MNCs ability to extract profits from the host country.

Generally speaking, the countries of the world are classified as either developed countries or less developed countries. (LDC). An LDC lacks modern industry and the supporting services. The output per person is usually low. There is usually unequal distribution of income, with a few very rich, a small middle class, and great number who are poor. The MNC provides an opportunity for a fast start in the building of an LDC economy. The objective is to reach a level where the economy can grow on a self-sustaining basis. Some LDCs often have a tendency of nationalizing industries, when they feel that there has been insufficient transfer of skills. An MNC must consider this risk in making an investment decision.

Political/Legal Factors

MNCs operate in an environment with a variety of political factors. The most important aspect the MNCs look for is political stability. Analyses of the political factors in the MNCs external environment take into account how competing political philosophies or social unrest in a host country may affect the conduct of business.

In addition, since there is no comprehensive system of international law or courts, the MNC must become acquainted in detail with the laws of each host country. Regardless of their country of origin, MNC managers must take care to comply with legal requirements of the host country. And, if any laws should be contravened, the MNC must be prepared for the legal consequences. Managers of MNCs must be knowledgeable about:

- É Laws governing profit remission to the parent country
- É Import and export restrictions and investment controls
- É Degree of foreign ownership permitted.

Social Factors

The culture of each nation in the world is unique. Managers of MNCs are not citizens of each country they do business in and so they must be very careful not to superimpose their views of the world on to host country. MNC managers will have to adapt and conform to the requirements of the local culture.

UNIT 18

Benefits of MNC to a Host Nation

Multinational companies benefit host nations in many ways:

1. They provide access to capital and advanced technology - countries in the developing world do not generally have the necessary capital and technology for producing the material and other necessities for their people and for export. Since Multinational Corporations usually originate from the developed world, they normally transfer investment capital and advanced production technologies to their subsidiaries in the developing world. The host nations certainly benefit from the high productivity and economies of scale that are characteristic of advanced production technologies; besides gaining access to investment capital provided by the Multinational Companies.
2. They create employment opportunities - MNCs provide additional employment opportunities for citizens of host nations. In some cases, they also create a demand for labor that draws new workers into the industrial labor market from more traditional occupations. In their home countries, however, MNCs are often accused of exporting jobs to other countries. People in the home country of a multinational firm may object to its activities abroad. When they see that jobs are created in other nations, they reason that a similar number of jobs are lost in the home country.
3. They contribute to tax revenue - multinational companies can be a significant source of tax revenue to host nations. In addition, the income tax paid by additional labor employed by the multinational firms beef up host nation's coffers.
4. They promote exports and generate foreign exchange - while much of the manufacturing by multinational firms in host nations involves the production of products for the domestic market, production for export is also done on a relatively large scale. The significance (to host developing nations) of production for export cannot perhaps be over-emphasized. Developing countries rarely have adequate indigenous capital and technology to produce enough goods for the local market and leave a surplus for export to earn foreign exchange. The promotion of export by multinational firms improve the host nation's international balance of payments

5. The promote competition - entry of a multinational company into a country can provide competition to suppliers of similar products in the host country. A competitive economy provides the best service to the consumer and fosters socio-economic development. Society benefits from such a situation in terms of lower prices, high-quality products, greater variety of products and abundant products. The surplus can be exported to neighboring and other countries, thereby earning a country foreign exchange, while forestalling black marketeering and smuggling.
6. Introducing new products - multinational corporations usually introduce new products in host nations. Also, they tend to produce a variety of product brands. People world wide like and perhaps need to have a choice.
7. The promote local business - the existence of multinational firms in host nations is vital to the growth and sustenance of local business whose services or supplies may be required by the multinational firms. For example, multinational firms may require security guards, local raw materials, houses for rent etc.
8. They provide access to superior managerial talent - multinational companies require well-trained managerial personnel to run their subsidiaries. For this reason, they usually offer managerial training to their host-nation employees in order to make them more competent.
9. They contribute to the improvement of host nations' general social welfare - this is done through the provision of housing, recreational facilities, and medical care to employees and their kin. Further, they often make charitable contributions to the needy.

Costs and Disadvantages of MNC to a Host Nation

The costs and disadvantages associated with the existence of multinational business in a host nation include:

1. They restrict access to modern technology by centralizing research facilities in the home country.
2. They restrict the learning- by-doing process by staffing key technical and managerial positions with managers from the home country.
3. MNCs fail to do enough in the way of training and development of host country personnel.

4. They dominate key industrial sectors
5. They undermine the host country's culture by operating according to standards developed in other countries.
6. In some cases they enter the market by taking over existing local firms rather than developing new productive investments
7. They hire away the most talented personnel, and exhaust resources of the host country.
8. They finance their entry mainly through local debt and maintain a majority of the equity with the parent.
9. They reduce economic control - multinational corporations are generally economic giants with massive amounts of economic power and whose actions are generally guided by their own profit and other motives rather than the host nation's internal needs. For example, when they import raw materials or transfer funds, they cause dislocations in the host nation's international balance of payments. Therefore, multinational companies can lessen the amount of control which host governments have over their national economies. In addition, these companies' profit motive provides little or no redress to social services which host nations expect from institutions operating in their country.
10. They introduce unfair competition for third-class local businesses - some indigenous business in host nations often lack the necessary investment capital and production technologies to compete effectively with multinational corporations. The presence of multinational corporations in a country, therefore, subjects such indigenous businesses to unfair competition. Owing to their ability to pay relatively higher wages and salaries, multinational firms attract competent local talent employed by local firms, leaving the latter with marginal employees. Local firms that attempt to improve their compensation packages in order to retain competent personnel often end up plunging themselves in financial crises.
11. They degrade the physical environment - like other institutions in host nations, multinational corporations have many impacts on the physical environment. In their operations, they distort scenic landscapes and pollute the air, water and surroundings, among other things. Though deterioration of the physical environment cannot be completely avoided, society expects business and other institutions to strive to strike a balance between their activities and the limits of nature.

Costs Versus Benefits

Should foreign private investment be allowed in the country? Unless a country has a viable alternative to socio-economic development through induced and unrestrained private (foreign as well as local) investments, the answer is yes. The net benefits are perhaps indispensable to developing countries, especially those that are unsuccessfully striving to develop. The costs involved are normal effects of a live economy that can be managed to acceptable levels through regulatory mechanisms

Restraining investment can, at best, only yield marginal economic results and general backwardness.

The Need for Cooperation

The relationship between a multinational firm and a host nation should be that of positive interaction and genuine co-operation. This is necessary if the two parties have to achieve mutually beneficial results. When a multinational company enters a host country, it implicitly agrees to serve the needs of that country's people, obey the country's laws, and respect the country's cultural and ethical values. This agreement, which is not written and usually derived from discussions with government and community leaders is called a social contract. A multinational firm that fails to embrace this sort of agreement will not be trusted by a host country.

Multinational Firm's Expectations

Multinational corporations expect certain important services, inducements, and facilities to be present in countries being considered for business operations. These include:

- É An adequate transportation system to business and residential areas
- É Adequate educational, health, and recreational facilities
- É Equitable taxes and tax concessions
- É Citizens and political leaders who are fair and honest in their dealings with business
- É A stable political system
- É Fair regulations regarding remittance of dividends and other dues to multinational firm's home countries

- É Less bureaucratic licensing and other procedures
- É Freedom of entry into preferred industrial and commercial sectors
- É Adequate information about investment problems and opportunities.

Host Nation's Expectation

Host countries also have certain expectations of multinational business. Among other things, they expect multinational companies to:

- É Co-operate with local businesses and other institutions in improving community life.
 - » Contribute material and financial resources to health and education
- É Support institutions created to serve less advantaged citizens
- É Comply with law
- É Respect local people's traditional and ethical values
 - » Respect political, economic and other goals and policies
- É Refrain from corrupt business practices.

Global Problèmes and Expectations

There are many pressing social problems facing humanity today which multinational firms and other institutions can easily overcome through co-operative efforts! These problems include:

- É Famine - many developing countries are experiencing chronic shortages of food resulting from persistent droughts and, poor economic policies. Multinational firms can help in many ways, such as by working) co-operatively with the Food and Agricultural Organisation (FAO) in improving global food supplies. Another way in which multinationals can help is by investing capital in hunger-stricken countries to stimulate the growing of staple food crops.
- É Refugees - a lot of people in the world today are fleeing from their home countries due to civil wars, famine, oppressive governments, and the like. Since the United Nations High Commission for Refugees (UNHCR), United Nations Relief and Rehabilitation Agency (UNRRA), and other similar agencies usually lack the necessary material and financial resources to deal with the problem of refugees, support .from multinationals would by greatly appreciated by the international community.

