

THE BUSINESS CONTEXT

Unit 2 — Slide 2.1

(Cap. 2 – Business Administration and Accounting)

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The impact of context on business organizations

Business as a process

Routine operations use tangible and intangible resources to generate desired outputs.

No firm acts in a vacuum

Activities involve continuous exchanges with external subjects directly or indirectly involved.

Business environment

All subjects and factors that influence activities in a direct or indirect manner.

Managing the context is necessary for business survival in the long term

The business environment includes both internal and external factors.

Dependency relationships in the business environment



Dependency relationships require knowledge, monitoring and interaction with stakeholders

Main stakeholder categories

Internal stakeholders

Individuals or groups with a direct interest in the organization, linked to employment, ownership or investment.

Employees • Owners/shareholders • Managers

External stakeholders

Individuals or groups outside the business that influence or are influenced by its activity.

Customers • Suppliers • Lenders • Media • Government • Local communities

Stakeholders are the players with whom the firm must identify, establish and maintain relationships

Primary and secondary stakeholders

Primary stakeholders

Essential to the persistence of the business. Their withdrawal can lead to immediate cessation of activity.

Usually: customers, employees and owners/shareholders.

Secondary stakeholders

Important in managing the business environment. The firm does not directly depend on them, but they can influence activity.

Usually: suppliers, managers, lenders, local community and government.

The distinction shows different degrees of dependence, not total exclusion from management attention

Some authors argue that all stakeholders should be treated carefully.

Main stakeholder relationships

Owners / shareholders

Provide equity and expect an adequate return on invested capital.

Employees

Provide labour and influence quality, productivity and organizational wellbeing.

Customers

Generate revenues and require offerings aligned with expectations and preferences.

Suppliers

Provide inputs that affect quality, timeliness and differentiation.

Stakeholders contribute resources, expectations and constraints to the business context

External institutional and financial relations

Lenders

Provide loans with fixed terms, repayment structures and interest rates.

Government

Collects taxes, defines rules and may offer infrastructures and services.

Local community

Shares the area where the firm is located and can be affected by employment, safety and environmental impacts.

A good relationship with the local and institutional context supports reputation and continuity

The firm is embedded in a wider network of social, administrative and financial relationships.

The micro-environment and the macro-environment

Macro-environment

Remote environment.

External factors that characterize the whole economy and society in which the business operates.

The firm usually cannot control these factors.

Micro-environment

Immediate environment.

Factors, actors and conditions that typify routine activity.

The firm and these actors influence each other.

Macro = adapt and react • Micro = manage mutual relationships

From external change to business response

Investigate

Identify the
most
important
factors

Monitor

Observe
continuous
changes

Anticipate

Evaluate
possible
consequences

Respond

Limit threats
and turn
opportunities
into action

A prompt and effective response can be crucial for survival

The macro-environment is not static: it is subject to continuous changes.

The analysis of the macro-environment

P

Political factors

E

Economic factors

S

Sociological factors

T

Technological factors

E

Ecological factors

L

Legal factors

PESTEL is the most widespread framework for investigating the macro-environment

Political factors

Political stability

Governmental longevity and endurance influence uncertainty, services and institutional efficiency.

Government interaction

Firms need permits, licenses, facilities and cooperation when operating in a territory.

Rules and policies

Labour laws, tax policies, consumer and environmental regulations, trade policies and tariffs affect activity.

Political instability raises uncertainty and can reduce the quality of governmental services

Economic factors

GDP indicators

GDP per capita and GDP growth are popular measures of national economic performance.

Business cycle

Fluctuations alternate phases of expansion and contraction, affecting organizations differently.

Rates and inflation

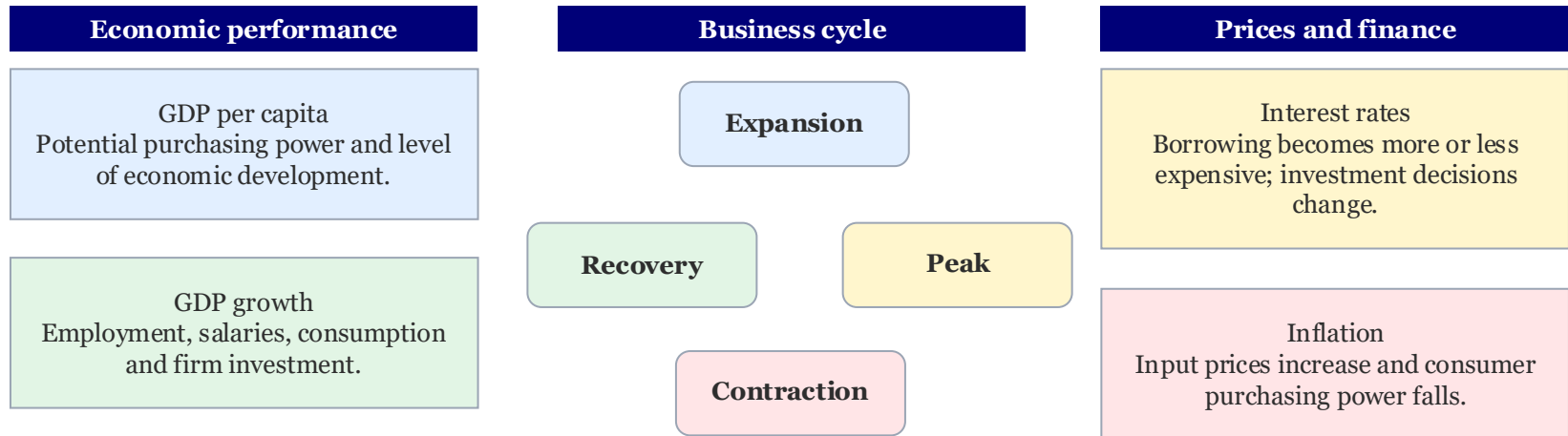
Interest rates influence borrowing and investments; inflation reduces purchasing power and affects prices.

Economic conditions shape investments, consumption, employment and profitability

Businesses most exposed to the business cycle need closer monitoring of economic variables.

Political factors

Economic variables shape demand, investment, costs and business profitability.



Economic factors influence both revenues and costs: firms monitor them to adapt strategy and operations.

Industry cyclicality

Industries do not react in the same way to GDP fluctuations.

CYCLICAL	DEFENSIVE	SENSITIVE
profits move with the business cycle	demand remains relatively stable	partly exposed to the business cycle
Basic materials Consumer cyclical Financial services Real estate	Consumer defensive Healthcare Utilities	Communication services Energy Industrial Technology
more exposed	necessity-based	mixed sensitivity

Sociological factors

Culture and values
religion • lifestyles
family • education

Consumer preferences
new expectations
new buying habits

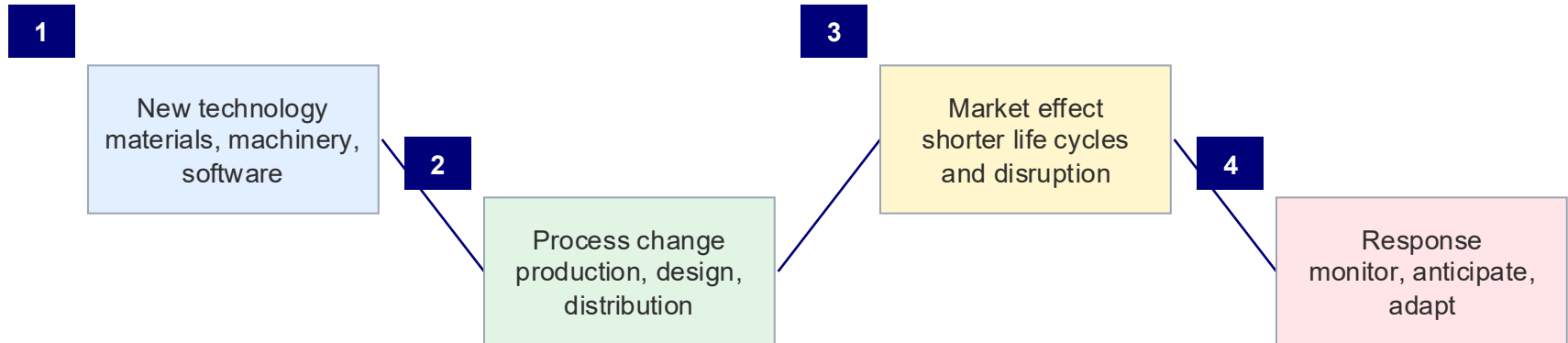
SOCIAL NORMS

Work attitudes
flexibility • remote work
wellbeing

Demographic trends
population growth
age structure

Firms adapt products, communication and labour policies as society changes.

Technological factors



Most widespread technological changes

new materials • machinery • software • business process support • product design • distribution channels • payment methods

Managerial implication

The same innovation can become either a threat or an opportunity depending on the firm's response.

Ecological factors

NATURAL ENVIRONMENT

climate
water
non-renewable resources
ecosystems

Organizations need to
monitor ecological changes
and adapt operations
accordingly.

MAJOR THREATS

**Natural
disasters**

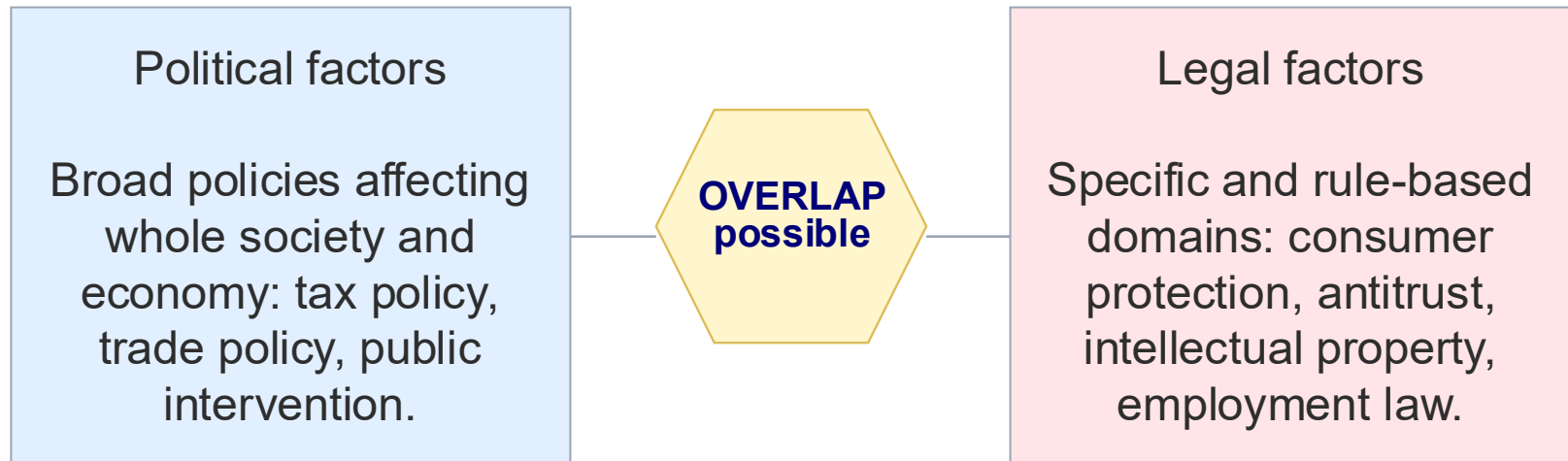
**Climate
change**

Pollution

**Limited
resources**

Possible impact: disruption of production, infrastructure, supply chains and operating activities.

Legal factors



WHY IT MATTERS

Compliance avoids unnecessary costs and supports the firm's legitimacy in the local community.

The analysis of the micro-environment



Porter's five competitive forces

Competitors

RIVALRY

Pressure among organizations in the same industry or strategic group.

Price pressure

A reduction by one firm may force rivals to react.

Profitability

High rivalry can reduce margins and profits.

**Continuum:
from no rivalry to high rivalry**

Strategic behaviour

Competitors influence offers, quality and market positioning.

Revenues

Competition may reduce demand captured by each firm.

Rivalry affects the ability of existing firms to defend profitability.

Drivers of rivalry

1

Market concentration

low concentration → more firms competing for each customer

2

Market growth rate

low growth → firms gain sales by taking customers from rivals

3

Cost structure

high fixed costs → pressure to maintain sales volume

4

Exit barriers

hard exit → excess supply and stronger price competition

When markets are crowded, growth is weak, fixed costs are high and exit is difficult, rivalry tends to intensify.

Customers

HIGH BUYER POWER

- few buyers generate most revenues
- buyers support low switching costs
- buyers demand lower prices or higher quality

LOW BUYER POWER

- many buyers purchase small volumes
- the offer is clearly differentiated
- switching is costly

SWITCHING COSTS

monetary

psychological

effort-based

time-based

Effect on the firm: pressure on prices, quality and profitability.

Suppliers



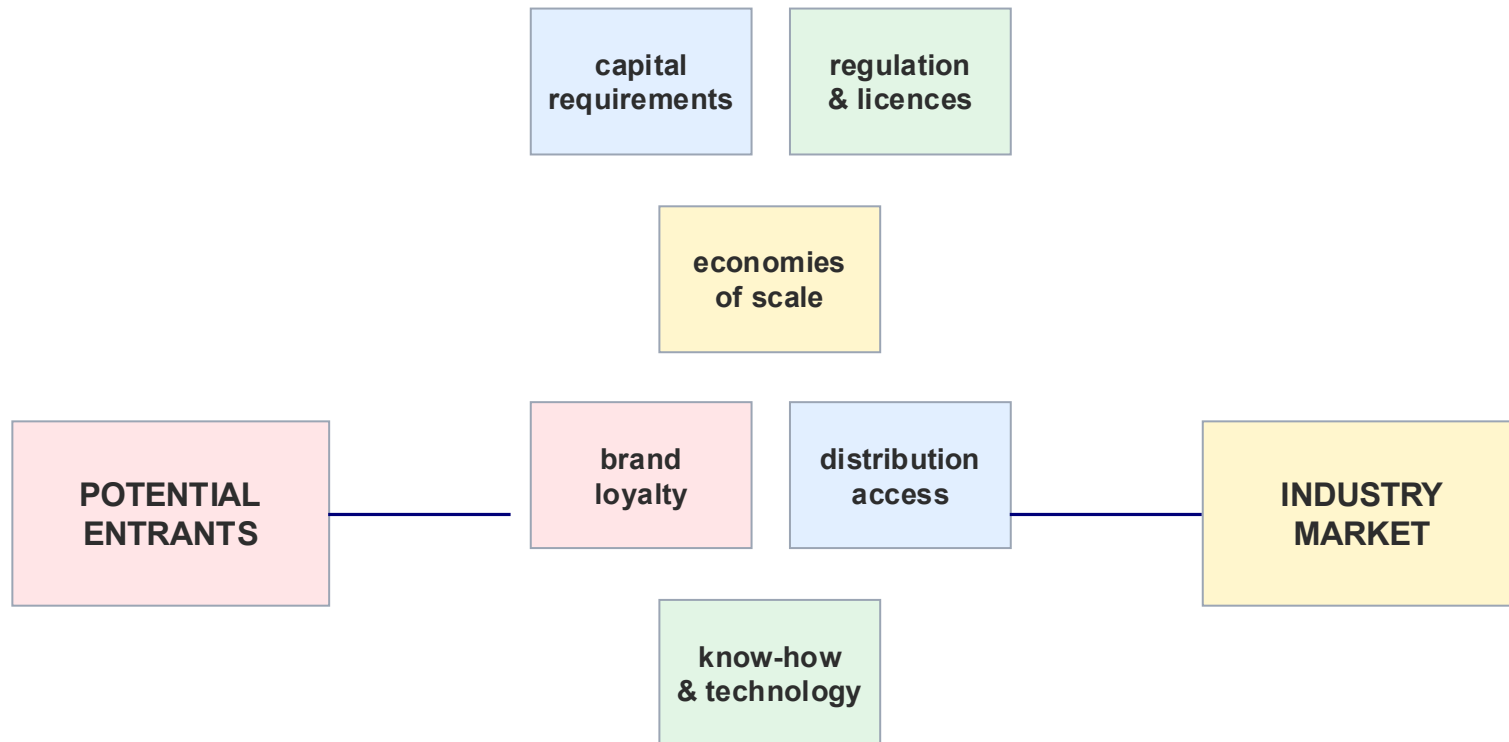
Number of
suppliers
more
alternatives
reduce
dependency

Unique input
rare inputs
increase
pressure

Criticality
central
components
create
dependency

Switching costs
moving supplier
becomes
expensive

New entrants: barriers to entry



The stronger the barriers, the lower the threat of entry and the more protected incumbent firms are.

Substitute products/services

CUSTOMER NEED

same function
or problem

Existing
product/service
current way to satisfy
the need

Substitute
different way to satisfy
the same need

THREAT INCREASES WHEN

substitutes offer an attractive price–performance ratio and
customers can switch easily

Impact: substitutes limit prices, reduce demand and force firms to improve value.