

# Introduction to Business

Topic 2: Business Environment

Lecture 1: Economy and PESTLE  
Analysis

# Learning Objectives

- ▶ What is:
  - Business Environment
  - Micro and Macro Environments
  - PESTLE analysis



# What is 'Business Environment'

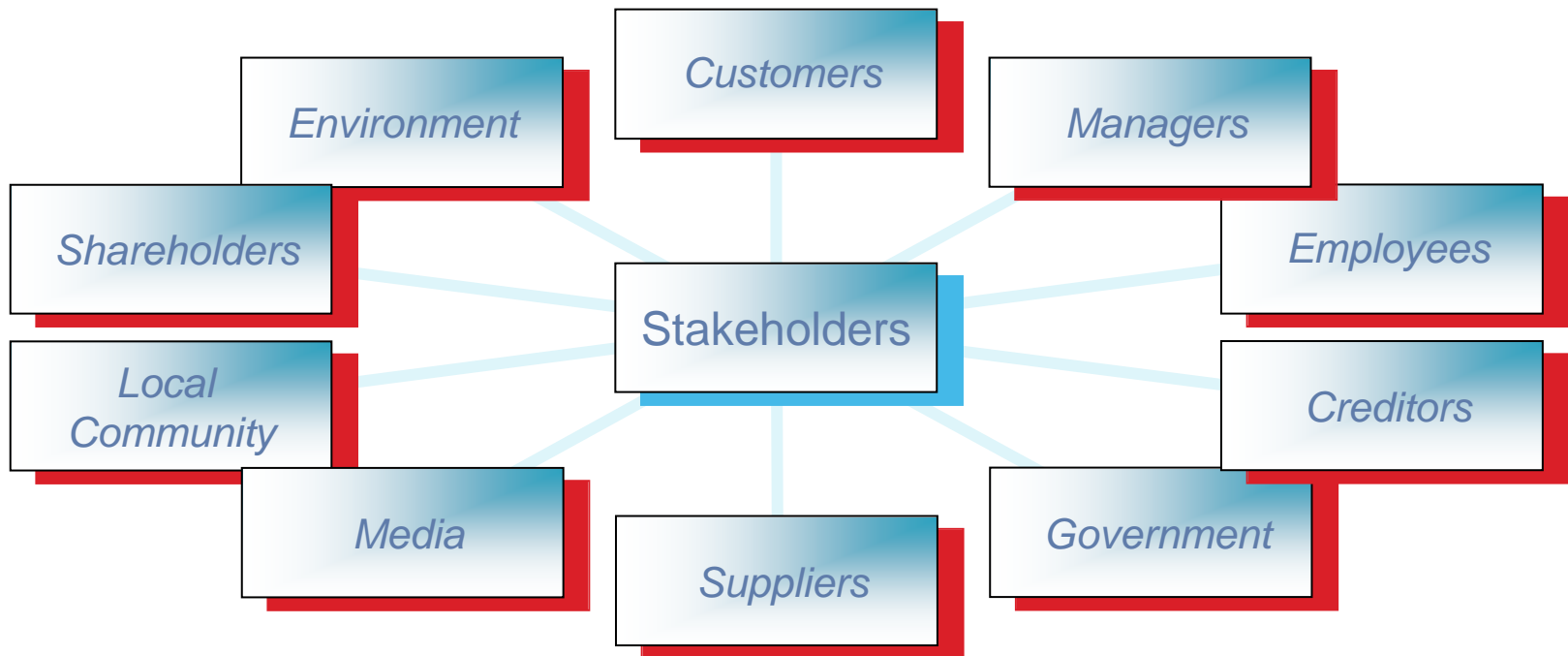
- The business environment is anything which surrounds the business organisation, such as culture, laws etc.
- The Business environment influences the decisions, strategies, processes and performance of the business.

# 'Micro' and 'Macro' Environments

- ▶ **Business environment influences can be divided into:**
  - Internal influences – the '*Micro*' environment
  - External influences – the '*Macro*' environment

# The 'Micro' Environment

- ▶ Consists of different types of stakeholders – customers, employees, suppliers, etc.

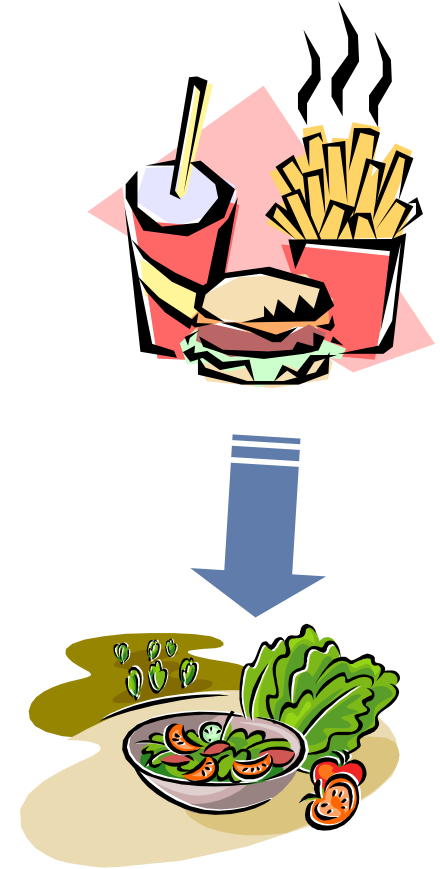


# Micro Environment – 1

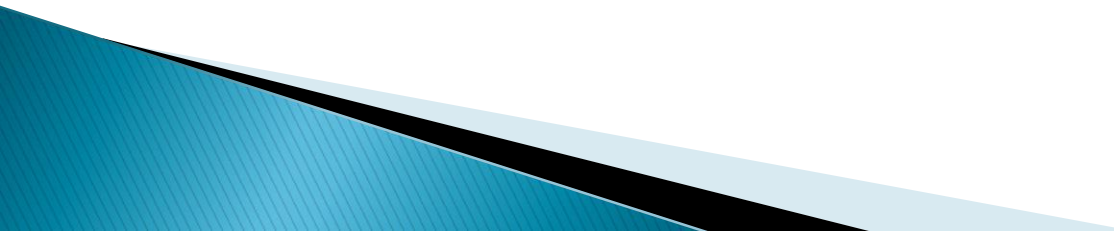
- ▶ As already discussed in topic 1, the different views of the stakeholders will directly affect the business's activities.

# Micro Environment – 2

- ▶ For example, a lot of customers now want healthier options from takeaways.
- ▶ Therefore, McDonalds have introduced salads and healthier sandwiches to their menu.



# The 'Macro' Environment – 1

- Consists of external influences which are beyond the control of the business – Social, legal, environmental, political, etc.
  - Changes in the 'macro' environment will indirectly affect the business.
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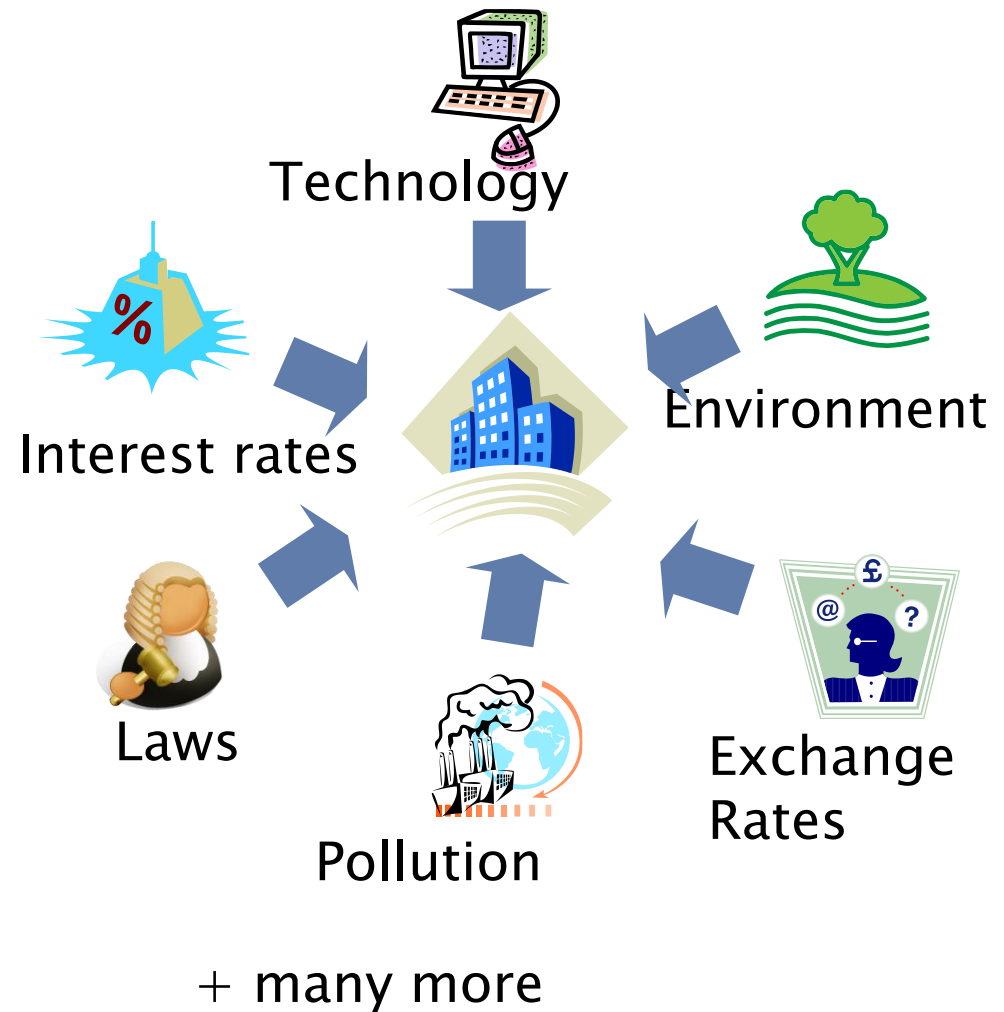
# The 'Macro' Environment – 2

- ▶ For example, a change in national legislation such as a smoking ban indirectly affects pubs and restaurants

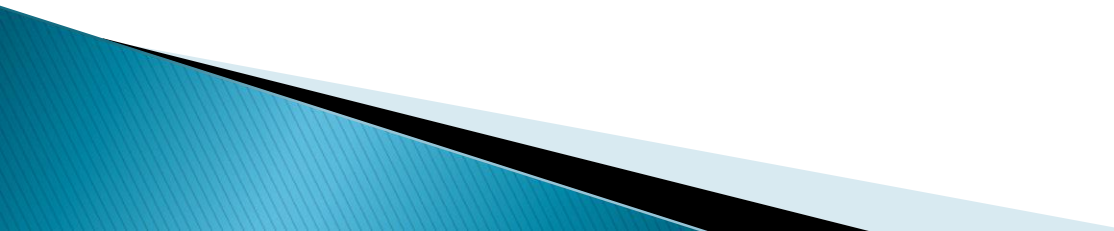


# External Factors or Influences – 1

- ▶ A business does not function in a vacuum. It has to act and react to what happens outside the factory and office walls.



# External Factors or Influences – 2

- Those factors that happen outside the business are known as *external factors* or *external influences*.
  - These will affect the main internal functions of the business and possibly the objectives of the business and its strategies.
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# Introduction to PESTLE

- ▶ The impact these external factors or influences have on a business can be analyzed using a tool called **PESTLE analysis**.
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# PESTLE

- ▶ Political
- ▶ Economical
- ▶ Social
- ▶ Technological
- ▶ Legal
- ▶ Environmental



▶ External influences on a Business

# Political Influences – 1

- What is happening politically in the environment in which the business operates
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- This is important because failing to consider political issues can mean competitors take advantage of new opportunities and gain competitive advantage.

# Political Influences – 2

- ▶ This includes areas such as:
  - *tax policy*
  - *employment laws*
  - *environmental regulations*
  - *trade restrictions and reform*
  - *tariffs*
  - *political stability*

# Economic Influences – 1

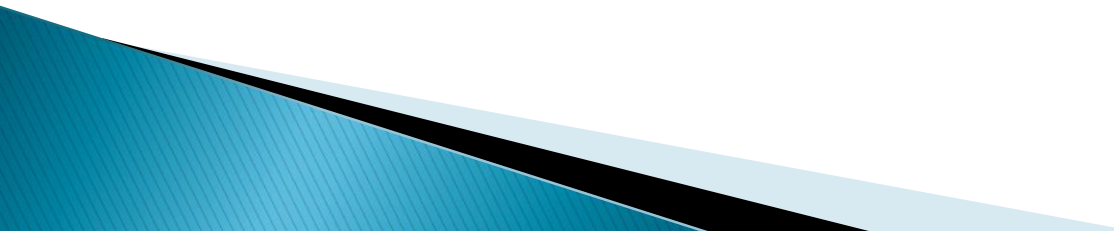
- What is happening within the economy
- It is important to be aware of economic situations so the organisation can match its products and services to the economic climate.



# Economic Influences – 2

- ▶ This includes for example:
  - *economic growth/ decline*
  - *interest rates*
  - *exchange rates and inflation rate*
  - *wage rates*
  - *minimum wage*
  - *working hours*
  - *unemployment (local and national)*
  - *credit availability*
  - *cost of living*

# Sociological Influences – 1

- What is occurring socially in the markets in which the business operates or expects to operate effects business
  - This is important because customers and their preferences change – organisations need to respond to these changes quickly.
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# Sociological Influences – 2

- ▶ This includes such things as:
  - *cultural norms and expectations*
  - *health consciousness*
  - *population growth rate*
  - *age distribution*
  - *career attitudes*
  - *emphasis on safety*
  - *global warming*

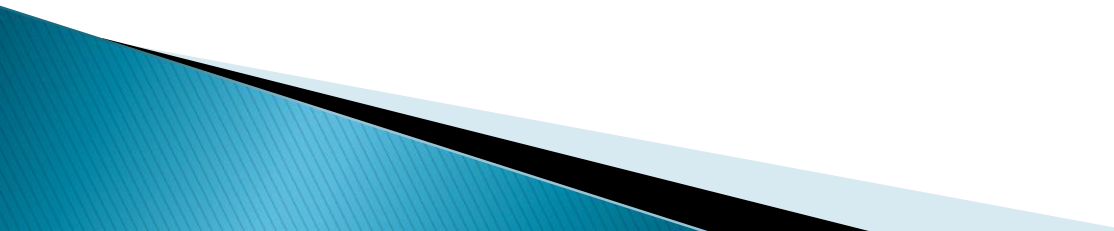
# Class Exercise

- ▶ In groups:
  - Think about a local company and discuss what external influences might affect them
  - Consider Political, Environmental and Social issues

10 minutes



# Technological Influences – 1

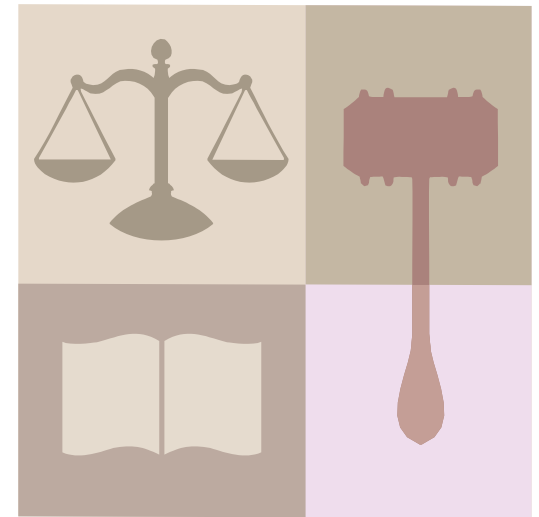
- New technologies are continually being developed and this impacts on the business products and/or services.
  - The rapid pace of change in production processes and product innovation means that a business needs to respond quickly.
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# Technological Influences – 2

- ▶ For example, things that were not possible five years ago are now mainstream:
  - *mobile phone technology*
  - *web 2.0*
  - *Blogs*
  - *social networking websites*

# Legal Influences – 1

- What is happening with changes to legislation
- Legal changes are happening on a daily basis, and as a result, can have a large influence on what is happening within the business environment.



# Legal Influences – 2

▶ For example, this may impact:

- *employment*
- *access to materials*
- *quotas*
- *resources*
- *imports/ exports*
- *taxation*





# Environmental Influences – 1

- What is happening with respect to ecological and environmental aspects. Many of these factors will be economic or social in nature.
- All businesses have some impact on the environment.



# Environmental Influences – 2

- ▶ For example:
  - *Organisations emit pollution, produce waste and use resources for power*
  - *There is also pressure to become “greener” and more environmentally friendly from governments and social pressures from customers*

# Class Exercise

- ▶ In groups:
  - think about a local company and discuss what external influences might affect them
  - consider Technology, Legal and Environmental issues

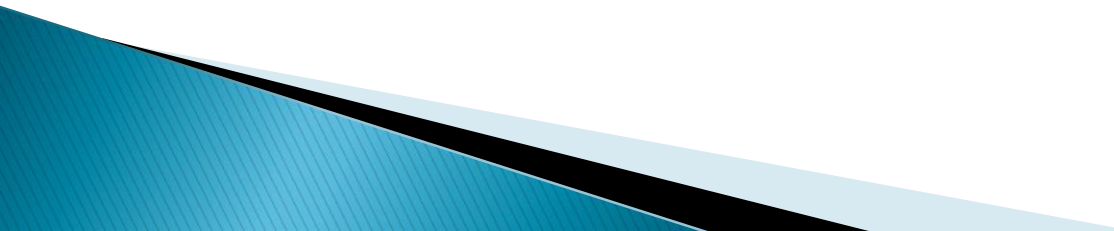
10 minutes



# Where can PESTLE be used?

- PESTLE analysis can be used for:
  - business and strategic planning
  - marketing planning
  - organisational change
  - business and product development
  - research reports
- It can also be used from a departmental or individual perspective to look at what you deliver to whom and how you do it.

# Effectiveness of PESTLE

- To be effective a PESTLE needs to be undertaken on a regular basis
  - Organisations that do analyses regularly and systematically often spot trends before others thus providing competitive advantage.
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# Conclusions

- The micro environment is concerned with internal aspects of the organisation, whereas the macro environment is concerned with external factors.
  - Organisations need to consider all the six elements of PESTLE as each of these puts pressures on the organisation.
  - Failure to adapt to changes in the environment potentially results in losing advantage, losing customers & ultimately the failure of the business.
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