

BA 291 – BUSINESS ENVIRONMENT

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“It’s not the strongest of the species that survives, nor the most intelligent, that survives. It is the one that is the most adaptable to change”



Which one do you prefer?

“Geologists at Ohio State University have found the largest-ever complete fossil of a cockroach, one that lived 55 million years before the first dinosaurs.”

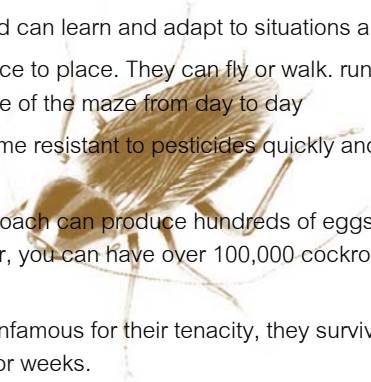




Facts about cockroaches

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- can eat almost anything, including paper, wood, glue and rubbish.
- quite intelligent and can learn and adapt to situations amazingly fast.
- move fast from place to place. They can fly or walk. run in mazes and remember the route of the maze from day to day
- know how to become resistant to pesticides quickly and are therefore very difficult to poison
- each female cockroach can produce hundreds of eggs during her short life span. Within a year, you can have over 100,000 cockroaches from that original female.
- Cockroaches are infamous for their tenacity, they survive a nuclear war, can live without head for weeks.



Facts about dinosaur

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- A large collision would throw so much dust into the air that sunlight would not be able to shine and plants and animals would die. The dramatic changes in climate that resulted from this huge collision were too much for the dinosaurs. They were not able to survive.
- Dinosaurs became extinct is volcanic activity.
- Disease killed off the dinosaurs

Size, slow, food, number offspring, slow breeding ...



Business Environment

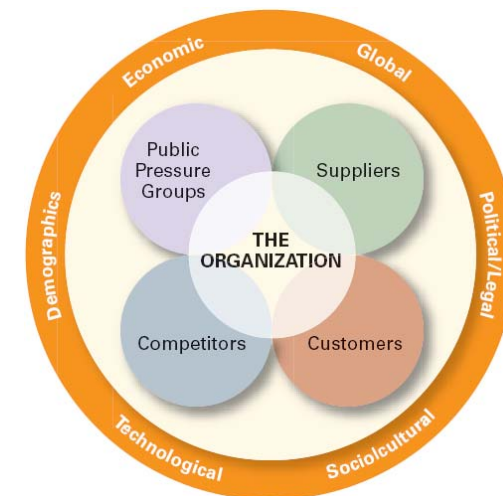
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The environment in which companies operate is continually changing, sometimes quite rapidly. Companies have to learn how to adjust and adapt their business to change.



Business Environment

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The general environment affects organizations indirectly. Change in general environment does not directly change day-to-day operations, however, they do effect all organizations eventually.



Political Risk

- Political instability
- Expropriation of corporate assets without prompt and adequate compensation
- Forced sale of equity to host-country nationals, usually at or below depreciated book value
- Discriminatory treatment against foreign firms in the application of regulations or laws
- Barriers to repatriation of funds (profits or equity)
- Loss of technology or other intellectual property (such as patents, trademarks, or trade names)
- Interference in managerial decision making
- Dishonesty by government officials, including cancelling or altering contractual agreements, extortion demands, and so forth

Impact on Business

- Business decision, Investment decision
- Political institutions as policy maker
- Consumer confident, consume decision
- Cost of doing business – corruption
- Competitive advantage – subsidiary, discrimination

Business related law

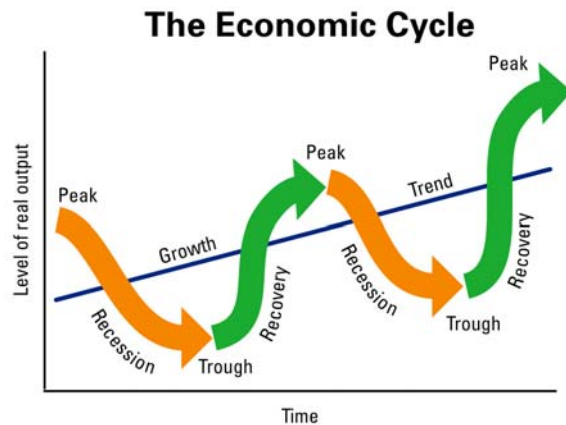
- Company law
- Product safety and liability, labeling requirement, consumer protection
- Tax law
- Competition law, anti-trust law, cartel law
- Regulations on accounting – US GAAP, IFAS, IAS, Thai GAAP
- Labor law, employee right
- Environment law

Impact on business

- Law as a framework
- Product liability law, consumer protection – more concern about consumer, cost when sue in the court
- Labor law – cost, benefits for employee
- Competition law – price setting, merger and acquisition other companies
- Environmental law – product design, facilities design

Liebeck v. McDonald's Restaurants (McDonald's coffee case and the hot coffee lawsuit)

- a woman who was heavily burned by hot coffee purchased from fast food restaurant McDonald's was rewarded \$2.86 million.
- Her attorneys argued that McDonald's coffee was "defective," claiming it was too hot and more likely to cause serious injury than coffee served at any other establishment



„The euro briefly traded as low as Y108 on Monday, its weakest level since November 2001. The resulting loss of buying power among European consumers is a serious problem for Japanese exporters such as Sony, whose profit forecast for the year to March 2011 assumes an average exchange rate of Y125 to the euro. The divergence could cost the electronics group Y100bn this year.“ [...]

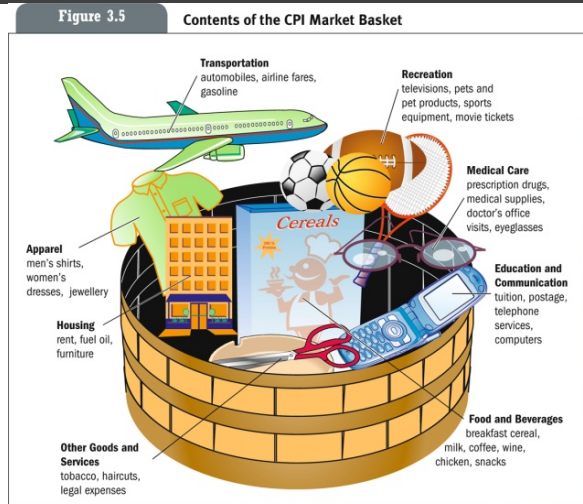
The financial turmoil in Europe, which is hitting the euro, is creating additional problems for Japanese companies. Hitachi, for example, has said some of its projects are being delayed by financing issues. The weaker euro, which has lost 5.9 per cent against the yen over the past month, also makes European manufacturers more competitive. [...]" (Financial Times, 8.06.2010)

Currency Exposure

- **Transaction exposure:** the extent to which the income from individual transactions is affected by fluctuations in foreign exchange values
- **Translation exposure:** the impact of currency exchange rate changes on the reported financial statements of a company
- **Economic exposure:** the extent to which a firm's future international earning power is affected by changes in exchange rates

Hedging against currency risk: Forward contract, Options, Swaps, Diversification of location

- **Inflation:** The rate at which the general level of prices for goods and services is rising, and, subsequently, purchasing power is falling (Consumer price index)
- **Core inflation:** a measure of inflation which excludes certain items that face volatile price movements
- **Headline inflation:** measure of the total inflation within an economy



- **Demand-pull inflation** caused by increases in aggregate demand due to increased private and government spending
- **Cost-push inflation**, also called "supply shock inflation," is caused by a drop in aggregate supply (potential output). This may be due to natural disasters, or increased prices of inputs.
- **Built-In inflation** is often linked to the "price/wage spiral".

Unemployment rate

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1. Frictional unemployment: is the time period between jobs when a worker moves from one job to another.
2. Seasonal unemployment: Unemployment expected at a given time of year
3. Cyclical unemployment: occurs when there is not enough aggregate demand in the economy.
4. Structural unemployment: occurs when a labor market is unable to provide jobs for everyone who wants one because there is a mismatch between the skills of the unemployed workers and the skills needed for the available jobs

Demographic

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- Physical characteristics of a population such as:
 - Gender
 - Level of education
 - Geographic location, Immigration
 - Income
 - Family composition
 - Age

Impact on business: Consumer taste and preferences, Product & Service design, New customer segments, Sophistication of product

Product for aging society

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Infrastructure

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The physical facilities that support economic activities, including railroads, highways, ports, airfields, utilities, power plants, schools, hospitals, and commercial distribution systems.

Impact on business:

- Cost
- Efficiency
- Disruption of production
- Competitive advantage





Social-cultural

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- ❑ The sum total of beliefs, rules, techniques, institutions, and artifacts that characterize human populations.
- ❑ Consists of learned patterns of behavior common to the members of a given society.
- ❑ The unique lifestyle of a particular group of people.

Impact on business: tastes and preferences, product design, marketing strategies, business negotiation, meeting, personal management



Technology

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- method or technique for converting inputs to outputs in accomplishing a specific task.

Changes in the technological environment have had some of the most dramatic effects on business. A company may be thoroughly committed to a particular type of technology, and may have made major investments in equipment and training only to see a new, more innovative and cost-effective technology emerge.



Globalization/ Internationalization

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International integration arising from increasing human connectivity and interchange of worldviews, products, ideas, and other aspects of culture.

In particular, advances in transportation and telecommunications infrastructure, including the rise of the Internet, represent major driving factors in globalization and precipitate further interdependence of economic and cultural activities.



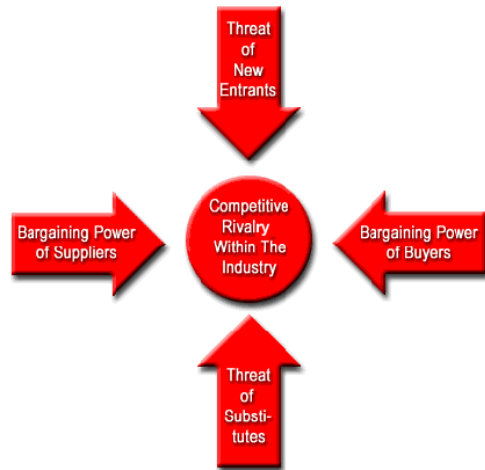
Task Environment

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The task environment include all the sectors that conduct day-to-day transactions with the organization and directly influence its basic operations and performance.

Task environment includes customers, competitor, suppliers, labor market and pressure groups.





The internal environment of an organization contains the internal resources (funding, employee, skills, know-how) and possesses internal capabilities (process, management system) and core competencies.

The organization needs to conduct the internal analysis figure out loopholes in resources, capabilities, and core competencies.

This enables the firm to devise suitable strategies for closing the gaps in the aforesaid internal components