

# 5

## Business environment



This chapter discusses the following facts.

- 5.1 Importance of studying the business environment
- 5.2 Classifying the business environment
- 5.3 Internal environment and its influence
- 5.4 External environment and its influence
- 5.6 Nature of the Sri Lankan economy
- 5.7 Major business sectors of the Sri Lankan economy
- 5.8 Abundant resources in Sri Lanka
- 5.9 Environmental trends

## 5.1 Importance of studying the business environment

Business environment can be defined in simple terms as all the factors and forces that influence the business activities positively and negatively, from within the business and from the outside.

Business environment keeps on changing. If one identifies these changes and responds appropriately to them, he/she can run a business easily. In addition, this provides important business related benefits for an entrepreneur. At present, Sri Lanka has a market-oriented economy. By studying the changes in the Sri Lankan business environment, many creative business ideas or opportunities can be generated in the different sections of the environment.

### *Examples :-*

- ★ Tendency towards using computer technology, communication technology and e-commerce.
- ★ Environmental tourism and the increased number of tourists (both local and foreign)
- ★ Opportunities in the construction sector

While entrepreneurs contribute to create a business culture of quality, business environment provides a good foundation to ensure the survival of entrepreneurs. In order to attain business objectives, it is necessary to study the business environment with care.

Identifying the favourable and unfavourable influences of the business environment is useful to achieve the business goals and objectives. The opportunities and strengths arising through the environmental factors are advantageous to the business, while the weaknesses and threats are disadvantageous.

The entrepreneur should identify the favourable influences and use them to strengthen the business further. Similarly, he should also identify unfavourable influences and take steps to minimize them. It is the factors of the business environment that pave the way for the entrepreneur to make correct decisions.

The following table demonstrates how the modern business environment differs greatly from the business environment of the past.

Table 3.1 - Differences between the business environments in the past and in the present

<b>Business environment of the past</b>	<b>Business environment at present</b>
People often satisfied their basic needs at a minimum level	People are keen to satisfy their basic needs at a very high level
Needs and wants were simple	Needs and wants have become complex
There were limited goods and services to fulfil a certain need	There are many goods and services to fulfil a certain need
There was not much competition	Competition is severe
Businessmen were powerful	Consumers have become powerful
Profit was the principal motive	In addition to the profit motive, there are other motives such as social responsibilities
It was limited to a small area	It has expanded globally
Speed of change was very low	Speed of change is very high

Understanding the changes in the modern business environment is very useful for an entrepreneur. Given below are some advantages that can be gained this way

- ★ Identifying the strengths and weaknesses of the business
- ★ Identifying the various business opportunities available in the environment
- ★ Identifying the threats faced by the business
- ★ Conducting the production and sales activities according to the changes in the environment
- ★ Formulating plans and determining strategies according to the changes in the environment



### Activity 01

01. Inquire about the past environment of your school. Observe the changes that have occurred in the school environment up to the present, and list them.

## 5.2 Classifying the business environment

Business environment can be divided into two principal parts, to make it easier to study. These are

- ★ Internal environment
- ★ External environment

### Internal environment

All the factors which are found within the business and which influence the functioning of the business organization are referred to as the internal environment. The major factors of the internal environment are as follows:

- ★ Business owners
- ★ Managers
- ★ Employees
- ★ Resources

By studying these factors, a person can clearly understand the strengths and weaknesses of his/her business.



Figure 5.1

## External environment

Factors which exist outside the business organization but which can influence its functioning are called external environmental factors. External environment is much broader than the internal environment. Factors of the external environment are given below:

- ★ Micro environment
- ★ Demographic environment
- ★ Economic environment
- ★ Political and legal environment
- ★ Technological environment
- ★ Natural environment
- ★ Social and cultural environment
- ★ Global environment

Studying the factors of the external environment helps to identify various business opportunities as well as potential threats that the business will have to face.



Figure 5.2

## 5.3 Internal environment and its influence

You already know that internal environment factors of an organization influence its business activities and that they help to identify the strengths and weaknesses of the business. Strengths can be used to achieve success in business. Getting rid of the weaknesses will also lead a business towards success. What should be noted here is that the influence of internal environmental factors can be controlled by the business itself. Let us examine each of these factors separately, together with the impact they have upon the business.

## Owners

The persons who provide capital for the business are the owners.

Owners who are financially sound are a strength for a business. They can provide the resources necessary for business activities without any hindrance. When the owners are well reputed people with experience in business, it is highly favourable for the business. On the other hand, weak financial capacity and wrong decision making can have a negative impact on the business.

## Employees

Employees are the persons who are engaged in the business activities of the organization.

They contribute their mental or physical labour for the business activities and earn salaries and wages in return. Employees who like their organization and believe in it are a strength for a business. Well trained and knowledgeable employees can conduct the business activities at an optimum level. When the employees are inefficient and untrained, it can disrupt the functioning of the organization. Employee appraisal, training and incentives are ways of minimizing employee weaknesses.

## Managers

It is the managers who manoeuvre the human and physical resources of the business and lead the way to attain the goals and objectives of the organization.

The success of business activities depends on the knowledge and skills of the managers. While talented and creative managers are a strength, even one wrong decision made by managers can be unfavourable for the business. Therefore, not having talented, creative, trustworthy and committed managers is a definite weakness in an organization.

## Resources

Resources refer to all physical and financial resources that are relevant for the business activities.

When a business has sufficient amounts of resources (such as machinery, buildings, vehicles and money), and when the latest knowledge is being used in the business, it is a strength for the entrepreneur. Lack of resources will hinder the attaining of business goals. Weak time management too is a weakness.

The strengths, identified through the internal environment, should be developed further; and measures should be taken to minimize the weaknesses.





## **Activity 02**

Read and understand the following statements well. Say whether each of them is a strength or a weakness.

01. The owner has some savings deposited in a bank.
02. Business activities are delegated to qualified managers.
03. Resources are not used economically.
04. Managers with different skills are hired by the organization.
05. Employees do not come to work on time.
06. Products of good quality are offered at a reasonable price.
07. Business premises are not maintained well.
08. New technology is used.
09. A loan has been taken at a high rate of interest.
10. There is a flexible plan for the organization.
11. No changes are made to go with the times.
12. The higher positions of the organizational hierarchy are duly respected.
13. The different skills and abilities of the employees have been identified.
14. There are good relations among the departments of the organization.
15. Research is done for the development of the business.

## **5.4 External environment and its influence**

You already know that the external environment includes the factors and forces which influence a business from the outside and which cannot be directly controlled by the business. When opportunities are fully exploited and threats are resolved, business goals can be easily accomplished. Let us examine the factors of the external environment and their impact.

### **Micro environment**

Out of the factors of the external environment, the micro environment contains the forces that are the closest to the business.

Forces of the micro environment are customers, suppliers, competitors, those who offer similar products and those who wish to enter the business field in future. Though these are not fully controllable, the entrepreneur has some degree of control over them.

***Examples :-***

When there are a lot of customers who have the ability to buy goods and services, it is an opportunity.

When competitors change their strategies, it is a threat for an entrepreneur.

## **Demographic environment**

The population of a country and the factors associated with their lives are included in the demographic environment.

The market for goods and services is organized on the basis of the demographic environment. When the population grows, the market becomes broader, and more goods and services will have to be produced. Forces such as population growth rate, population's composition and age-wise distribution etc have an impact upon businesses.

***Examples :-***

When there is a greater population of children, it is a good opportunity for toy manufacturers.

When there is a greater population of adults in a country, it is a threat for the businesses producing goods for children.

## **Economic environment**

Factors that determine the economic conditions of a country are taken under the economic environment.

Factors of the economic environment, such as fluctuation of interest rates, changes in the price levels, rate of employment, salary level, foreign exchange rates etc can have favourable or unfavourable impacts upon business activities. It is useful for an entrepreneur to be aware of the opportunities and threats that can arise out of these factors.

***Examples :-***

When the rate of employment is high, people earn a better income, which can broaden the market. This is an opportunity.

A rise in the interest rate for loans is a threat for businesses.



## **Political and legal environment**

State economic policies and the laws relevant for their implementation are referred to as the political and legal environment.

International treaties, foreign trade, state policies and laws are the factors of the political and legal environment. They have much influence over the success of business activities as well as over the economic development of the country.

### ***Examples :-***

When the country enters into international agreements, it opens up opportunities for the local exporters.

When the government raises the tax rates, it is a threat for businesses.

## **Scientific and technological environment**

The use of scientific methods and new technology, as well as the impact of research upon business activities, is considered as the scientific and technological environment.

New scientific discoveries, research and development, new goods and services, and information and communication are factors of the scientific and technological environment. With the development of technology, new products enter the market. When new goods and services are introduced, some products may go out of the market.

### ***Examples :-***

Internet provides an opportunity for businesses to enter the foreign market.

Due to the use of digital cameras, there is less need of studios. This is a threat for studio owners.

## **Natural environment**

The influence of natural phenomena upon business activities is considered as the natural environment.

It is from the natural environment that the raw material and resources are obtained for businesses. We can identify natural resources and natural disasters as the factors of the natural environment. Some of the valuable resources of this environment have been used for business activities while there are some that have not. If natural resources are used in a manner that does not harm the environment, many opportunities can be gained. On the other hand, natural disasters can prove a threat to businesses as well.

***Example :-***

The demand for herbal products made from indigenous herbs is a business opportunity.

Natural disasters such as droughts and floods are a threat to agricultural activities.

**Social and cultural environment**

It is the attitudes, values and life style of the people that are included in the social and cultural environment.

Traditions, values, beliefs and changes in the life style are taken as the factors of the social and cultural environment. In a country where there are people of different races, religions and cultures, it is important to be aware of the opportunities and threats that may come up for businesses. In addition, social and cultural values should be upheld through business activities.

***Example :-***

Foreigners come to watch the annual Kandy Perahara. This is a business opportunity.

When the number of vegetarians increases, it is a threat for manufacturers of meat-related products.

**Global environment**

There is a tendency for the countries of the world to forego their borders and be linked together. This is referred to as the global environment.

***Example :-***

Greater possibility of entering the international market is an opportunity.

The local market gets flooded with products manufactured in other countries. This is a threat for local businesses.

Opportunities, which arise through the factors of the external environment, should be made use of. At the same time, steps should be taken to minimize the threats.



### ***Activity 03***

The following are some influences of the factors of the external environment. Read them up carefully. Then, for each of them, indicate whether it is an opportunity or a threat, and also the relevant environmental factor.

01. A new international port is constructed
02. There is a formal system for waste management within the country
03. There is an increase in the number of families with a low income
04. There is a legal system which is favourable for businesses
05. The government has made it compulsory to use carbonic fertilizers when growing vegetables
06. The harvest of coconut is lower due to a fungal disease
07. The price of new technical equipment is high
08. There is a greater demand for Sri Lankan tea from foreign countries
09. Gem veins have been discovered in several places in the Central Province
10. The price of mineral oil has increased
11. There is a low rate of child births
12. The country is politically unstable
13. Programmes are implemented to encourage local industries
14. There is an internal conflict in the country
15. Goods and services are produced based on the cultural differences of the various ethnic groups
16. New technical equipment is introduced instead of the machinery which is in use
17. New competitors enter the market
18. There is a tendency to spend one's leisure in a productive way



### ***Activity 04***

Pasan lives near the historical site of Sigiriya. He discovered a business opportunity through the windy and tropical climate of the area: he created and marketed a sun-hat that does not get blown away in the wind. There was a high demand for the product and it became a very successful business.

There can be similar opportunities in the area that you live. Briefly explain the relevant information and your ideas for a business that can cater to such opportunities.

## 5.6 The economy of Sri Lanka

### Nature of the economy of Sri Lanka

Sri Lanka has been a prosperous country from the past. The land was ruled by kings, and the people fulfilled their needs and wants through an agricultural life style. With the later arrival of the Westerners, the economy of Sri Lanka faced various changes. In this context, plantation industry can be identified as a mile stone. Following this, there have been major changes in the economic, social, administrative, business and industrial sectors of the country.

After obtaining the independence in 1948, various economic plans have been implemented for the economic development of the country. Businesses have been organized under the three main sectors of agriculture, industry and services. With the development of technology, businesses have introduced many new products into the market. Services and facilities such as high ways, electricity, communication, insurance, money, banking etc have spread throughout the country. As the industrial sector expanded, the contribution of the services sector has increased very fast. The principal aim in the present day economy is to enter the foreign market (in addition to the local market) in order to reach an overall economic development.

At present, the principal business sectors in Sri Lanka are the following.

## 5.7 Principal business sectors in Sri Lanka

### 01. Primary sector

Under this sector, resources are extracted from the natural environment in their original state. In other words, resources of the natural environment are put to use without changing them in any manner. Given below are some examples for businesses of the primary sector:

Agriculture and farming (cultivating flowers, timber industry, poultry etc)

Fisheries (fishing in the sea and in fresh water)

Mining (gem industry, lime stone industry, etc)

## 02. Secondary sector

Here, natural resources obtained from the natural environment are subjected to change in shape, quality or colour, and used for consumption or for other business purposes. That is to say, this is the sector that includes the manufacturing industries. There are two sub sections of this sector, namely:

Manufacturing (cement, shoes, books etc)

Construction (buildings, bridges, etc)

## 03. Tertiary sector

Businesses that provide the services needed for the people as well as for business purposes are considered under the tertiary sector. The following are some examples:

Trade (retail, wholesale, etc)

Services required for trade (banking, insurance, transportation, etc)



### *Activity 05*

Prepare a list of businesses in your area. Then categorize them as primary, secondary or tertiary.

## 5.8 Abundant resources in Sri Lanka

Sri Lanka is an island with a land area of 65610 square kilometres, and rich with a proud historical and cultural heritage. There are many resources in our country which are being used by entrepreneurs as well as many that have not yet been exploited. Some of these resources are man-made, while some are obtained from the natural environment. Resources can be divided into two main types, as

- ★ Human resources
- ★ Non-human resources

## Human resources

The managers and non-managerial employees engaged in business activities are considered as the human resource. It is through the human resource that one can take the maximum use of all other resources. The high literacy and skill for learning are some of the special characteristics of the human resource in Sri Lanka. The uniqueness of our human resource should be identified before exploiting it for business opportunities.

Studying these differences will enable an entrepreneur to use the human resource in a new and creative manner, which will create new business opportunities.



Figure 5.3

## Non-human resources

Here we will discuss about the resources that are non-human, including natural resources and man-made resources, which are used for business purposes. When compared to other countries, Sri Lanka possesses some unique resources.

An entrepreneur can study the environment and identify the resources which are abundant in Sri Lanka. It is his/her duty to look for such resources, and use them with maximum efficiency to generate creative business opportunities. Given below are some examples for such resources.



- ★ Natural resources -  
Water, water falls, rivers, beaches, fertile soil, mountains, fish, expanses of shallow water and lagoons, low lands, rain forests, coral reefs, eco systems with high bio diversity, etc
- ★ Mineral resources -  
Gems, lead, phosphate, granite, ilmenite, dolomite, silica sand, clay, lime stone etc
- ★ Cultural resources -  
Historical places such as Anuradhapura, Polonnaruwa and Sigiriya, historical artifacts, stone carvings, wood carvings, paintings etc
- ★ Natural forests -  
Wild life parks such as Yala, Kumana, Wasgamuwa; natural forests such as Sinharaja
- ★ Fauna -  
Rare species of quadrupeds, birds, reptiles etc



Figure 5.4

**The following are some business opportunities that can be created using the above mentioned resources:**



## Agricultural activities

Sri Lanka has an age-old food tradition which is well-developed. Therefore we can create many new business opportunities through agriculture. Agricultural products such as vegetables, fruits, rice, grains and export crops can be grown using carbonic fertilizer, and it can be a successful enterprise. Processing, packaging and preserving agricultural products, as well as offering them to the foreign market, are some other possibilities. What is important here is letting go of the traditional agricultural products and thinking as entrepreneurs.

### *Examples :-*

Discovering new methods of preserving the harvest

Creating alternative products using those new methods

Encouraging tourism based agriculture

## Tourism industry

Sri Lanka is rich in resources of natural beauty that can be used to boost tourism. In addition, we have man-made resources such as airports, ports, highways, city renovation, etc. Developments in information technology can also be exploited to create new business opportunities in tourism.

## Ayurvedic medicine

Nowadays there is an increased demand for indigenous medicines. This demand can be fulfilled with the ayurvedic treatment methods and medicines which we already have. It is up to the entrepreneur to plan creative business opportunities based on the traditional field of Sri Lankan medicine. Such opportunities could cater to both local and foreign markets.



Figure 5.5

## 5.9 Trends in the business environment

The last few decades have seen some major changes in businesses. Parallel to these changes, the business environment too has changed. As the field of business broadens with these changes, many new trends have come up. The following are some of them;

- ★ Using new technological methods and equipment
- ★ Preference for environment-friendly products
- ★ Popularity of new types of seeds and gardening
- ★ Spreading of eco-tourism
- ★ Greater demand for beauty culture, fashion etc
- ★ Production of hygienic foods
- ★ Increased demand for transportation, financial services and communication services
- ★ Development of information and communication technology
- ★ Greater preference for the natural environment
- ★ Higher demand for ready-to-eat food
- ★ Business opportunities through the construction industry
- ★ Globalization
- ★ Harnessing environment friendly sources of energy
- ★ Business opportunities through nano-technology

### Importance of being aware of the environmental trends

Given below are some advantages that can be gained through being sensitive to the trends of the environment;

- ★ Creating new sources of income
- ★ Facing the market competition successfully
- ★ Making use of resources that have not yet been explored
- ★ Grasping successful business opportunities
- ★ Minimizing environmental issues
- ★ Identifying the essential development processes within the economy
- ★ Protecting the indigenous resources and conserving them for the future



### **Activity 06**

Identify the resources available in your area and prepare a list. Indicate the business opportunities that can be created through those resources.

### **Let us write answers.**



01. Indicate 5 benefits that an entrepreneur can gain through studying the environment.
02. Give examples for new business opportunities that can be created through the development taken place recently in Sri Lanka
03. The business environment of the past has gone through many gradual changes. Present several differences that you can see between business environments of the past and the present.
04. The strengths of the owners are highly important for the efficient functioning of business activities. Explain, as you understand, how the owners can be a strength for a business.
05. When carrying out business activities in a changing environment, various weaknesses and threats will have to be faced. Name some of such problems and challenges.
06. Name the principal business sectors of the Sri Lankan economy and describe them in brief.
07. Present the components of the business environment using a flow chart.