

Chapter 5: Other influences on business

External constraints and constraints on business activity

Businesses cannot survive by neglecting the "real world", which includes **influences** that forces a business to make certain decisions or **constraints** that limits or controls actions. **External constraints** are things that businesses cannot control, these are:

- Technological change: New products.
- Technological change: New production processes.
- Increased competition.
- Environmental issues.

Here is a table from the book giving examples and the possible impacts on business activity:

Technological changes

Technological change bring about **constant changes** in consumer **products** and **production processes**. By using **R&D** to develop **new products**, companies could open up **new markets** and make huge amounts of money. Such companies include Microsoft, Sony and Apple. However, **new** products quickly **replace old** ones just like how **machines** are **replacing workers** in production processes.

There are two general things a firm could do when facing technological change:

- **Ignore** the changes and operate in the "traditional and old fashioned way". However, they can only sell to a small and **limited market**.
- **Compete** by **welcoming** changes and have an access to huge **massmarkets**.

Here are some pros and cons of technological change:

External influences	Example	Possible impact on business
Technological change leading to the development of new products	Mobile phones with cameras	<ul style="list-style-type: none">■ May make existing products old-fashioned and demand for these could fall.■ Jobs will be lost in businesses that do not develop new products.■ But new product ideas create new market opportunities.
Technological change leading to new production processes	Robots used to weld and assemble cars	<ul style="list-style-type: none">■ May make existing production methods seem expensive and uncompetitive.■ Workers may lose their jobs or, at least, will need retraining.■ But average production costs could fall.
Increased competition	Newly formed low cost airlines competing with national airlines	<ul style="list-style-type: none">■ May reduce demand for business already in the industry.■ Workers' jobs may be lost and profits may fall in the existing businesses.■ But increased competition could force businesses to become more efficient – this could lead to higher profits in the long run.
Environmental issues	Pollution caused by factories and chemical plants	<ul style="list-style-type: none">■ Bad publicity caused by pollution could damage a firm's reputation.■ Using 'clean' and nonpolluting methods may be expensive if the latest machinery has to be purchased.■ But businesses may create a unique image for themselves by adopting environment-friendly policies.

Pros:

- New products encourage customers to **buy more**.
- If a business comes up with a **new product** first, they gain a huge **competitive advantage**.
- **"High-tech"** production methods make production more efficient.
- **Fewer workers** are required.
- New production methods can be adapted **very quickly** which gives businesses more **flexibility** in meeting consumer wants.
- **E-commerce** opens up new markets and the Internet is a **medium** of advertising.

Cons:

- R&D is **expensive**, without guaranteed success.
- Businesses that do not **develop new products** will fail, leaving workers unemployed.
- New production methods and machines are **expensive**.
- Workers will need retraining which is **expensive**. They might be reluctant to learn or fear that they will not do well. This could lead to a **fall** in **motivation**.
- E-commerce lacks **personal** customer **service**.
- Smaller businesses cannot **afford** these things.

Introducing technological change successfully

Workers and managers may **fear** change. Workers might think:

- Will I be able to operate the new machines?
- Will I lose my job because the machines are more efficient?

Older workers are especially **afraid** of losing out to **younger** and **better trained** workers. **Managers** also fear change, since recruiting technology experts will make them look more **inferior** in some way.

To make these changes work better, workers need to be **involved** in the changes. Workers might be told why the new machines are necessary and how they will be trained to use them, as well as letting them suggest ways to make work more efficient with the machines. It leads to more **opportunities** for trained and skilled staff and can lead to **new ideas** and products.

Competition

Most businesses have competitors. Most business decisions are based on:

- What competitors are **doing**?
- How they might **react**?

When you develop a **successful** product, other businesses will undoubtedly **copy** you. Therefore, you will need to research and develop even more products, **keeping ahead** of them. Competition is a major influence on business activity.

Environmental constraints on business activity

There are two general opinions on caring about the environment:

- **Opinion A:** Keeping the environment clean is **too expensive**. We want to keep prices low and this is what **consumers want** too.

- Protecting the environment is too **expensive** and **reduce profits**.
- **Increased prices** mean **increased costs**.
- Firms could become **less competitive** compared to others who are not environmentally friendly.
- **Governments** should pay to clean it up.

- **Opinion B:** Consumers are now starting to prefer businesses with **social responsibility**. Cleaner and more efficient machinery benefit the business in the long-run.

- Environmental issues affect us **all** and businesses have a **social responsibility** to deal with them.
- Using up **scarce resources** leaves less for **future generations** and **raise prices**.
- Consumers are becoming more **socially aware**. More now prefer firms that are environmentally friendly which could become an **marketing advantage**.
- If a business damages the environment, **pressure groups** could protest and damage its **image** and **reputation**.

Ways to make a business more environmentally friendly

Governments make these business activities illegal:

- locating in **environmentally sensitive** areas.
- **dumping** waste products into waterways.
- making products that cannot be easily **recycled**.

Manufacturers often complain that these laws raise prices. Therefore, **some** governments usually do not make these laws **strict** with the hope of increasing output and in turn **employment**.

Financing penalties, including pollution permits

Pollution permits are licences given to a business to pollute up to a certain level. If "dirty" businesses pollute over the permitted level, they either have to **buy permits** from "cleaner firms" or **pay heavy fines**. This encourages firms to be cleaner and **sell** their permits to dirtier companies for more **money**. Other penalties include **additional taxes**.

Consumer action and pressure groups

Consumers are becoming more **socially aware**, and many of them will stop buying goods from companies which pollute the environment, harming a business' **reputation and image**. Bad **publicity** means lower sales. If they want to keep their sales revenue up firms would have to adapt to more environmentally friendly production processes again.

Pressure groups are becoming very powerful nowadays. They can severely damage businesses that are not **socially responsible**.

These are their powers:

- **Consumer boycotts**
- **Protests**
- **Blocking** waste pipes.

These are times when they are likely to take action:

- They have popular **public support** and has a lot of **media coverage**.
- The group is **well organised** and **financed**.

These are times when they are less likely to take action:

- What a company is doing is **unpopular** but **not illegal**. (e.g. testing drugs on rats)
- The **cost** of making the company cleaner is **more** than **losses** that could be made by losing image and sales.

- The firm supplies other firms and not customers, **public support** will be less effective.

Environmental issues and cost-benefit analysis

Governments are increasingly concerned about the **social** and **environmental effects** of business activity. They have started to use a new type of analysis on businesses and government proposals which will not only take into account **financial costs** but also **external costs**.

Cost-benefit analysis requires an awareness of **external costs** (costs to the rest of society) and **external benefits** (gains to the rest of society). Here are some examples.

Decision: A new chemical plant will be built.

External costs	External benefits
Waste products will cause pollution	Jobs will be created
Smoke and fumes may damage the health of residents	Other firms may move into the area to provide services to the chemical firm
Parkland cannot now be used by local residents	Important chemicals will be produced to benefit society

Private costs	Private benefits
Cost of land	The money made from the sale of the chemical products
Cost of construction	
Labour costs	
Costs of running the plant when it has been built	
Transport costs of materials and completed products	

Social costs are worked out from **private costs** and **external costs**.

Social benefits are worked out from **private benefits** and **external benefits**.

In other words:

- **Social costs = private costs + external costs.**
- **Social benefits = private benefits + external benefits.**