

SECTION

3

**BUSINESS
ENVIRONMENT**



Business Management

Business and Society

INTRODUCTION

In our previous lessons, we learned about the nature of business as an entity and the role they play in society, alongside how businesses are managed. We will now shift our attention to the business and its environment as well as the responsibility that a business has towards society and the environment in which it operates. In this section we will explore the internal and external factors affecting the operations or performance of businesses using the SWOT framework. Furthermore, we will explore the concept of Corporate Social Responsibility (CSR). Understanding these topics helps business owners and manager maximise the strength of their company, take advantage of the opportunities of their business environment and minimise the possible negative effects of weaknesses within or threats to a business. Understanding of CSR is important in building ethical and sustainable practices within business.

At the end of the section, you will be able to

- Analyse the internal and external environment of business using SWOT
- Explain Corporate Social Responsibility (CSR) and discuss its benefits and challenges

Key Ideas:

Business is shaped by both its internal and external environment.

- **The internal environment** refers to all factors and conditions that exist within the organisation and can be controlled by the organisation.
- **The external environment** refers to the factors and conditions outside or beyond the organisation's control.
- **SWOT** is a tool for analysing the environment of a business.
- **Corporate Social Responsibility (CSR)** refers to the ethical obligation of businesses to contribute positively to society and operate in a manner that is socially, environmentally, and economically sustainable.

INTERNAL ENVIRONMENT OF BUSINESS

Hello learner, we will focus on the internal and external environment of business. First, we will look at the internal environment of business, by using the Strength and Weakness component of the SWOT tool. The next lesson will focus on the external environment of business.

Internal Business Environment

The internal business environment refers to all the factors and conditions that exist within an organisation which influence or affect its performance or operations. These are factors over which the organisation has a certain degree of control and can directly influence. They include: organisational culture, management structure, human resources, financial resources, physical resources, internal processes, products/services, brand reputation, etc.

- 1. SWOT Analysis:** SWOT stands for Strengths, Weaknesses, Opportunities and Threats. It is a strategic planning tool commonly used to analyse the internal and external environment of a business and how it can impact positively or negatively on the operations of the business or organisation.



The first two components of SWOT are Strength and Weakness. These are used to analyse the internal environment of business whilst the last two components, Opportunities and Threats, are used to analyse the external environment of business.

Business Environment	SWOT Analysis	
Internal Business Environment	<ul style="list-style-type: none"> Strengths Weaknesses 	<i>Strengths and Weaknesses of SWOT are used to analyse the internal environment of business</i>

Business Environment	SWOT Analysis	
External Business Environment	<ul style="list-style-type: none"> • Opportunities • Threats 	<i>Opportunities and Threats of SWOT are used to analyse the external environment of business</i>

Table 3.1

Analysing the internal business environment using SWOT

Analysing the internal business environment is crucial for any organisation to make informed strategic decisions. The analysis of strengths and weaknesses are described below:

a. Strengths:

These are the internal factors that give an organisation a competitive advantage over others. These could include resources, capabilities, expertise, brand reputation, unique products/services, efficient processes, etc., of the organisation. It can be applied to identify an inherent strength of a business, assess what advantage a business has over competitors in the market and consider the resources and capabilities that give a business competitive edge.

b. Weaknesses:

These are the internal factors that put an organisation at a disadvantage compared to its competitors. Weaknesses might include outdated technology, lack of skilled personnel, high employee turnover, poor financial management, or inefficient production processes. A business can use the analysis of internal factors that hinder its operations to improve on these areas and support the achievement of business objectives

Activity 3.1

1. Identify and discuss three factors of a business's internal environment with a partner
2. Be prepared to share these as part of a whole class discussion

a.	
b.	
c.	

Activity 3.2

1. Study the case below

Kormijogo Technologies Inc.

Kormijogo Company Limited. is a mid-sized technology company located in Ghana that specialises in developing software solutions for small and medium enterprises (SMEs). Founded in 2010, the company has grown rapidly, establishing itself as a reputable player in the tech industry. It has a workforce of 500 employees and generates an annual revenue of GH¢30,000,000. Some of the product offering of Kormijogo include ERP solutions, CRM systems, cloud services, mobile applications, AI and analytics.

Kormijogo has a diverse range of cutting-edge software solutions catering to various business needs which sets it apart from competitors. Also, the company has a dedicated research and development team that continuously innovates and improves products. Furthermore, due to the company's excellent product quality and customer service, it has gained the loyalty of its customers with high customer satisfaction. The company can boast of a team of highly skilled professionals with expertise in various technological domains. This has helped the company to establish itself as a reputable institution in the tech market for reliability and innovation.

Nevertheless, the company's heavy reliance on small and medium enterprises makes it vulnerable to market fluctuations in this segment. While successful domestically, Kormijogo has limited international market penetration. Being a mid-sized company, Kormijogo sometimes struggles with resource allocation for large-scale projects. The company also depends on a few key employees for strategic decisions and innovation. The company's marketing strategies are not as effective in the digital age, impacting its outreach and brand visibility.

2. Use the Strengths and Weaknesses parts of the SWOT tool to analyse the internal business environment of Kormijogo.

Strengths	Weaknesses

3. Compare and discuss your findings with a friend
4. Make a presentation of your findings to your colleagues

EXTERNAL ENVIRONMENT OF BUSINESS

Welcome to the next lesson. In the previous lesson, you were introduced to the concept of SWOT and how it can be applied to analyse the internal business environment. In this lesson, you will progress to learn the external environment of business and the application of SWOT analysis to analyse the external business environment.

External Business Environment

The external business environment refers to factors and conditions outside an organisation's control that can significantly impact its performance and decision-making. These factors are beyond the immediate influence of the organisation but must be considered and adapted to appropriately. They include market conditions, economic conditions, political and legal factors, technological advancements, social and cultural trends, demographic factors, environmental factors, global factors, etc.

1. Opportunities:

These are external factors that could benefit an organisation if utilised properly. Opportunities may arise from market trends, changes in customer preferences, emerging technologies, or favourable government policies. Evaluating these external factors could benefit the business, identify untapped markets or new customer segments and explore potential partnerships, collaborations or strategic alliances that could create growth opportunities.

2. Threats:

These are external factors that may negatively impact an organisation. Threats could come from competition, economic downturns, legal and regulatory changes, natural disasters, or disruptive technologies. Assessing the external factors that could pose risk or challenge to a business, as well as potential obstacles that could hinder the business's success, enables organisations to take appropriate steps to mitigate them in order to achieve the business goals and objectives.

By using the four components of the SWOT analysis to assess both the internal and external environment in which they are working, organisations can develop strategies to leverage strengths, address weaknesses, capitalise on opportunities, and mitigate threats.

SWOT analysis helps businesses make informed decisions, prioritise actions, and formulate strategic plans to navigate the business environment effectively. It is important to regularly revisit and update a SWOT analysis to stay responsive to changes in the business environment.

Activity 3.3

Your teacher will show you a video or share articles or pictures on how a business may be affected by its external environment. Make notes on how each of the factors presented could or have affected the operation of businesses.

Activity 3.4

1. Read the case below

Eat and Go! Enterprise

Eat and Go! Enterprise is a local food vendor located in the heart of a bustling city. Known for its diverse menu that includes a variety of local cuisines, the vendor has been operational for five years. The business is run by a passionate family of chefs who prioritise fresh ingredients, unique flavours, and excellent customer service. The vendor operates from a food truck and participates in various local events, markets, and festivals.

A careful scan of the business environment showed that there is potential to expand to new areas or set up additional food trucks in different parts of the city. Also, collaborating with local businesses, such as breweries or coffee shops, could create opportunities to attract more customers. Furthermore, offering catering services for private events, parties, and corporate functions could open new revenue streams. The analysis of the business environment also showed that it was possible to introduce seasonal or themed menus to attract repeat customers and keep the offerings fresh and exciting. Implementing an online ordering system and partnering with delivery services could reach a wider audience and increase sales.

However, the local food scene is highly competitive, with new vendors and restaurants frequently emerging. Economic fluctuations affect consumer spending on dining out which heavily impacts sales. Changes in food safety regulations or permits required for operating a food truck also poses operational challenges. Dependence on local suppliers makes the business vulnerable to supply chain disruptions, affecting ingredient availability and costs. Public health concerns, such as pandemics have also drastically reduced foot traffic and event participation that impacts sales.

2. Use the opportunities and threats parts of the SWOT tool to analyse the external business environment of Eat and Go! Enterprise.

Opportunities	Threats

3. Compare and discuss your findings with a colleague
4. Make a presentation of your findings to your colleagues

Extension task:

Choose an organisation to research, or look at your school as a case study, and complete a full SWOT analysis to assess both their internal and external environments.

Strengths	Weaknesses
Opportunities	Threats

CORPORATE SOCIAL RESPONSIBILITY (CSR)

We will look into the concept of Corporate Social Responsibility (CSR) and cover the ethical and sustainable practices of businesses, their impact on society and the environment as a whole. It will look at some of the benefits and challenges of CSR and how CSR can affect corporate reputation.

Corporate Social Responsibility (CSR)

Corporate Social Responsibility (CSR) is a concept that refers to a business's commitment to operating in a socially and environmentally responsible manner while also contributing positively to the community and society at large. It goes beyond the traditional focus on maximising profits and shareholder value, aiming to strike a balance between economic success, ethical conduct and social and environmental considerations.

The concept of CSR has evolved over time, driven by increased awareness of global issues, changing consumer expectations and the recognition that businesses have a significant role to play in addressing societal and environmental challenges. CSR is not just about charitable donations or one-off initiatives; rather, it encompasses a long-term commitment to sustainable business practices and making a positive difference in the world.

Examples of CSR Activities/Initiatives

The specific activities involved in CSR can vary depending on the company's industry, size and geographical location. Some examples of CSR activities or initiatives include:

- 1. Environmental Initiatives:**
 - a.** Implementing sustainable practices to reduce energy consumption and minimise a company's carbon footprint.
 - b.** Adopting recycling and waste reduction programmes.
 - c.** Supporting renewable energy projects or investing in clean technologies.
 - d.** Participating in reforestation or conservation efforts.
- 2. Community Engagement and Philanthropy:**
 - a.** Supporting local community development projects, such as building schools, clinics, or community centres.
 - b.** Donating to charitable organisations and social causes aligned with a company's values and goals.
 - c.** Sponsoring events or initiatives that benefit the local community.
- 3. Employee Volunteering and Engagement:**
 - a.** Encouraging employees to volunteer their time and skills for charitable activities and community service.
 - b.** Offering paid volunteer leave or organising company-wide volunteer events.
 - c.** Supporting employee-driven charitable fundraising efforts.
- 4. Ethical Labour Practices:**
 - a.** Ensuring fair wages and safe working conditions for employees.
 - b.** Implementing policies that promote diversity and inclusion within the workforce.

5. Social and Educational Initiatives:

- a. Supporting education programmes and scholarships for underprivileged students.
- b. Providing training and skills development opportunities for disadvantaged individuals.
- c. Offering internships and job opportunities for young people in the community.

6. Health and Safety Initiatives:

- a. Promoting employee health and wellness programmes.
- b. Supporting healthcare initiatives in the community.

7. Stakeholder Engagement and Transparency:

- a. Engaging with stakeholders, including customers, investors, employees and local communities, to understand their concerns and expectations.
- b. Being transparent about CSR initiatives and progress through regular reporting and communication.

Examples of corporate social responsibility in action:



Fig.3.1: Graphic Communication Group offering free medical care to a community



Fig. 3.2: Ghana Shippers Authority donating items to a hospital



Fig. 3.3: Zenith Bank (GH) Ltd. equips computer labs for schools in Accra Metropolitan Area

Benefits and Challenges of Corporate Social Responsibility

CSR can offer numerous benefits to businesses, society and the environment. However, it also comes with various challenges that companies must navigate to implement CSR effectively.

Benefits of Corporate Social Responsibility

1. **Enhanced Reputation and Brand Image:** Companies that actively engage in CSR activities often build a positive reputation and improve the perception of their organisation with the public.
2. **Increased Customer Loyalty:** CSR initiatives resonate with socially conscious consumers, leading to increased customer loyalty and preference for products or services associated with responsible practices.
3. **Attraction and Retention of Talent:** CSR can be a powerful tool for attracting and retaining talented employees who seek purpose-driven and socially responsible work environments.
4. **Risk Mitigation:** By proactively addressing social and environmental issues, companies can reduce the risk of potential controversies, legal disputes and reputational damage.
5. **Cost Savings:** Implementing sustainable practices can lead to cost savings in areas such as energy consumption, waste management and resource efficiency.
6. **Competitive Advantage:** Demonstrating a commitment to CSR can differentiate a company from its competitors, providing a competitive edge in the market.
7. **Stakeholder Engagement:** CSR fosters stronger relationships with various stakeholders, including employees, customers, investors, suppliers and local communities.
8. **Innovation and Adaptation:** Embracing CSR can drive innovation by encouraging companies to find creative solutions to social and environmental challenges.

Challenges of Corporate Social Responsibility:

1. **Balancing Objectives:** Companies face the challenge of balancing the pursuit of profit with their commitment to social and environmental responsibility. Striking the right balance can be complex.
2. **Resource Constraints:** Implementing CSR initiatives may require significant financial and time investments, particularly for smaller businesses with limited resources.
3. **Measuring Impact:** Assessing the tangible impact of CSR initiatives can be challenging, making it difficult to quantify the return on investment (ROI) in some cases.

4. **Stakeholder Expectations:** Meeting the diverse expectations of various stakeholders can be demanding, as different groups may prioritise different social and environmental issues.
5. **Greenwashing Concerns:** Some companies may engage in greenwashing, where they exaggerate or falsely promote their CSR efforts without genuine commitment or meaningful impact.
6. **Complexity of Global Operations:** For multinational corporations, navigating CSR in diverse markets with varying regulations and cultural contexts can be complex.
7. **Time Horizon:** Some CSR initiatives may have long-term social and environmental benefits but might not provide immediate financial returns, creating short-term pressure on investors.
8. **Accountability and Transparency:** Companies must ensure transparency in their CSR reporting and actions to avoid accusations of insincerity or unethical behaviour.

In summary, to successfully address these challenges and reap the benefits of CSR, companies must integrate CSR into their core business strategy, be committed to genuine impact and engage in open dialogue with stakeholders. Collaborating with experts, NGOs and other organisations can also help companies address specific social and environmental issues effectively. Ultimately, the long-term sustainability and positive societal impact achieved through CSR make it a valuable aspect of modern business practices.

Activity 3.5

1. Study the case below

Vacomebra Company Limited

Vacomebra founded in 1990 is a Ghanaian outdoor clothing and equipment company known for its commitment to environmental sustainability and ethical business practices. The company's mission statement, "We're in business to save our home planet," reflects its dedication to using business as a force for positive environmental change. Vacomebra has implemented several CSR initiatives in the areas of Environment, labour practises and advocacy.

To minimise its environmental footprint, Vacomebra prioritises the use of sustainable materials, such as organic cotton, recycled polyester, and hemp. In 1996, the company switched to exclusively using organic cotton in all its products to reduce the harmful effects of pesticides and synthetic fertilizers. The company also operates a programme called the Worn Wear Programme which encourages customers to buy used Vacomebra products and trade in old items for store credit. It promotes the repair and reuse of clothing to extend its lifecycle and reduce waste. Furthermore, Vacomebra

donates 1% of its sales to environmental programmes. This initiative has led to the contribution of over 5 million Ghana Cedis to support environmental conservation efforts.

With regards to ethical labour practices, Vacomebra is committed to ensuring fair labour practices across its supply chain. Consequently, a significant portion of Vacomebra's products are Fair-Trade Certified. Vacomebra also provides detailed information about its supply chain, including factory locations and the working conditions of its employees. This transparency fosters accountability and trust with consumers.

When it comes to advocacy and activism, Vacomebra engages in environmental activism and advocacy. Over the years the company has launched several campaigns to raise awareness about environmental issues, such as the "Save the Blue Heart of Ghana" campaign, which aims to protect rivers from being polluted especially by illegal miners.

Vacomebra's CSR efforts have had significant positive impacts. For instance, by using sustainable materials and promoting recycling and repair, Vacomebra has reduced its carbon footprint and waste production. The company's environmental donations have funded numerous conservation projects nationwide. Also, their Fair-Trade Certification and supply chain transparency have improved working conditions for many of Vacomebra's factory workers, contributing to better livelihoods and safer work environments. Furthermore, Vacomebra's strong stance on CSR has enhanced its reputation as a leader in ethical business practices. This has built a loyal customer base that values sustainability and corporate responsibility.

Despite its successes, Vacomebra faces several challenges. For example, it has become quite difficult for the company to maintain its commitment to sustainability while meeting increased demand for its products. Furthermore, ensuring ethical practices across a complex supply chain remains an ongoing challenge. Some critics argue that Vacomebra's high prices make its products inaccessible to many consumers, potentially limiting the broader impact of its sustainability initiatives.

Vacomebra's comprehensive approach to CSR highlights the potential for businesses to drive positive change through sustainable practices, ethical labour standards, and active environmental advocacy. While challenges remain, Vacomebra's commitment to its mission serves as a powerful example for other companies seeking to integrate CSR into their core operations.

2. Identify the CSR strategies used by Vacomebra Company, their impact on stakeholders, and the overall effectiveness of their CSR initiatives.
3. Considering the balance between profitability and CSR, discuss how Vacomebra can maintain its financial health while investing in sustainable practises.
4. Summarise your answers on a flip chart and present your work to colleagues.

5. Invite feedback from your peers and consider how you might change your presentation if you were to do it again.

Activity 3.6

1. Work with colleagues, in maximum groups of three, to develop a comprehensive CSR proposal for a company, including initiatives for environmental sustainability, community engagement, and ethical business practices.
2. Present your proposal in your chosen medium to your business study teacher to review your work

EXTENDED READING

- Robbins, S.P. & DeCenzo D.A. (2008) *Fundamentals of Management: Essential concepts and applications*, (Sixth Edition), Pearson, Prentice Hall: Upper Saddle River, NJ. (**Read Chapter 3, pages 70 - 89**)
- Chandan JS (2002). *Management: Concepts and Strategies*. New Delhi, Vikas Publishing House, PVT Ltd (**Read Chapter 3, pages 53-69**).

Review Questions

1. Explain Corporate Social Responsibility (CSR) and examine its significance for businesses and society.
2. Identify and analyse three challenges usually faced by companies in Ghana that engage in Corporate Social Responsibilities.
3. Evaluate two ways in which Corporate Social Responsibility initiatives have contributed to environmental sustainability and employee welfare in Ghana.

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