

MKTG 306

FUNDAMENTALS OF

ENTREPRENEURSHIP

Session 11 – Understanding the Environment

Lecturer: Dr. Samuel C.K. Buame, UGBS
Contact Information: skbuame@ug.edu.gh



UNIVERSITY OF GHANA

College of Education

School of Continuing and Distance Education

2016/2017 – 2017/2018

godsonug.wordpress.com/blog

Session Overview

- Building from the understanding of the TRIPOD of Entrepreneurial Success. The session is designed to help students to understand how important the environment is to the success of any entrepreneurial activities.
- Every business is set in a certain societal context. The environment is so crucial that every government in Ghana tries to create an enabling environment for entrepreneurs.



Goals and Objectives

- **At the end of the session, the student will:**
 1. Understand Describe the Ghanaian business environment
 2. Identify the attributes of the environment
 3. Scan the environment

Session Outline

The key topics to be covered in the session are as follows:

- Topic One: The Importance of Understanding the Environment
- Topic Two: The Concentric Nature of The Environment
- Topic Three: Scanning the Environment
- Topic Four: The Parameters and Attributes of the Environment

Reading List

- Pages 259 to 266 of the main text –
- **Buame, S.C.K. (2012).** Advanced Entrepreneurship: Enterprise Culture, Venture Creation, Promotion & Management of SMEs in Ghana --- **MAIN TEXT**



Topic 1

THE IMPORTANCE OF UNDERSTANDING THE ENVIRONMENT



The Importance of Understanding the Environment

- The importance of the environment seems to be captured in the quotation below.
- *The analysis of environment in specific countries as related to entrepreneurship would be valuable in explaining differences in entrepreneurship globally.*
Wortman, Jr and Birkenholz, 1991:61
- Every environment has two sets of factors - the controllable and uncontrollable factors.

The Importance of Understanding the Environment (cont'd)

- The controllables are generally internal to the organization. The uncontrollable factors are external to the organization or to the business. They both influence the operation of any business activities.
- Understanding the context of your country is necessary for engaging in any meaningful entrepreneurial activities. This means having a working knowledge of the geography, the history, the people and the economy of Ghana.

The Importance of Understanding the Environment (cont'd)

- No business functions in a vacuum. It has to act and react to what happens outside the factory and office walls. The **external environmental factors** will always affect the main internal functions of the business and possibly the objectives of the business and its strategies.



The Importance of Understanding the Environment (cont'd)

- So increasingly, for the success of entrepreneurial activities, emphasis is being laid on the importance of the organizing environment. For instance, the environment may either have positive or negative influences.
- The general view is that the following factors are more likely to affect entrepreneurial activities in any country :

Factors That Are More Likely To Affect Entrepreneurial Activities In Any Country

- i. a country's industrial structure – is it rural-urban, agrarian or industrial
- ii. system of taxation- is it business friendly
- iii. geographical location, is it coastal or in the hinterland
- iv. attractiveness of markets (domestic and foreign),
- v. accessibility to capital and labour and,
- vi. nature of business - related legislations/regulations

Making the Ghanaian Environment Better

- a. favourable government policies,
- b. availability and easy accessibility to land,
- c. technical skilled labour,
- d. presence of experienced entrepreneurs as mentors and role model,
- e. local population that is receptive to locally manufactured goods and services,
- f. accessibility to suppliers of basic inputs
- g. existence of efficient transportation and telecommunication systems and public utilities
- h. availability of other support facilities and applied research institutes,

Topic 2

THE CONCENTRIC NATURE OF THE ENVIRONMENT



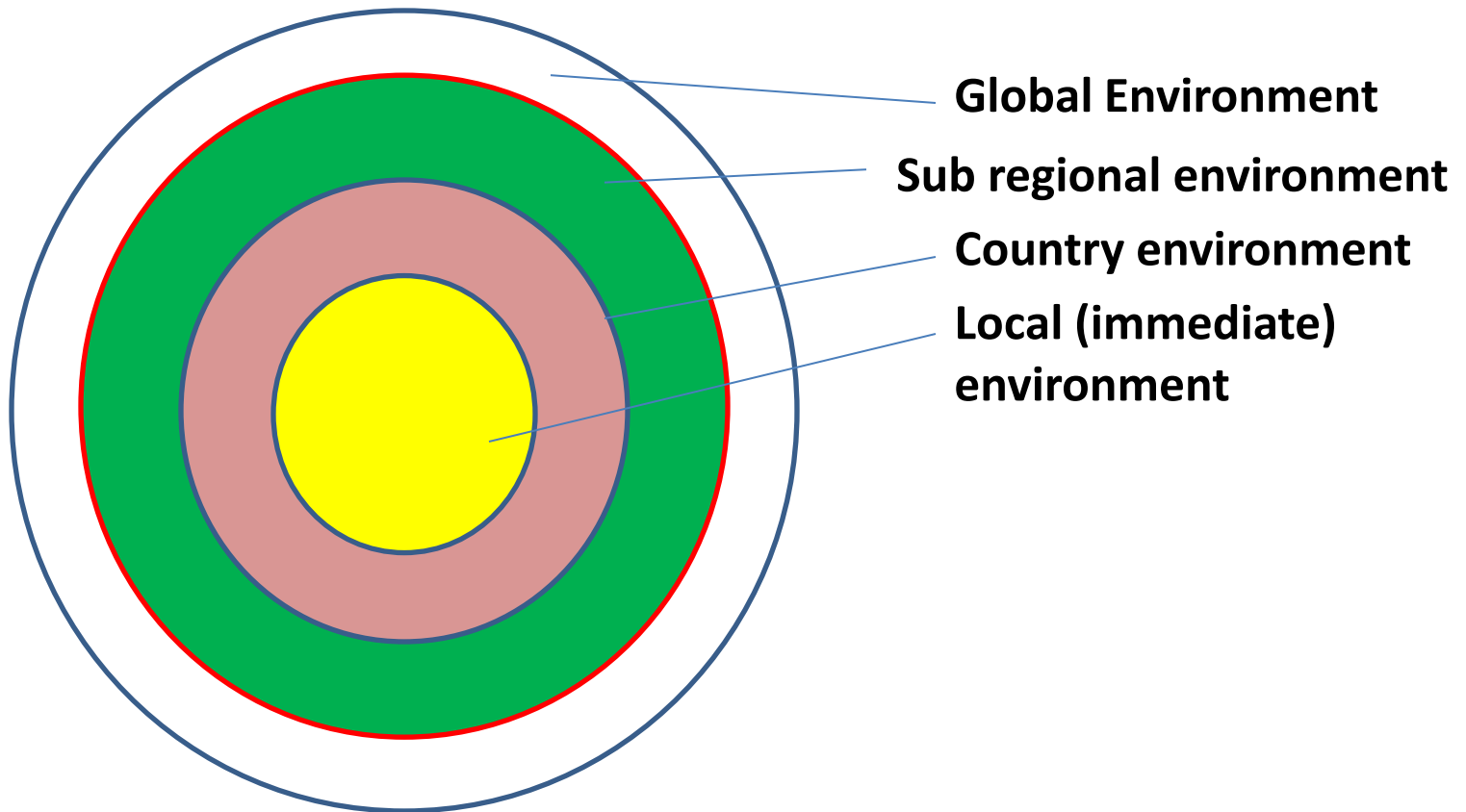
The Concentric nature of the environment

- It is important to know that the environment of any business ranges from the immediate and narrower local environment to the wider global or international environment.
- You may even hear of the world becoming a **global village**.
- No business entity can say that it is isolated from any part of the world.

The Concentric nature of the environment (cont'd)

- Whatever happens in any corner of the world has implications for any country. So just as the entrepreneur must monitor what happens in his immediate locality, so he must monitor what happens in the larger outside world. Thus, you can talk of the Ghanaian environment, the West African environment, the African environment and the international environment. So the environment is like many circles surrounding each other in a concentric manner (see the diagram below).

The Concentric nature of the environment (cont'd)



Topic 3

SCANNING THE ENVIRONMENT



Scanning the Environment

- Environmental scanning is generally accepted as being the first step in the process of aligning enterprise strategy with the peculiarities of the environment.
- This is because environmental scanning will help the organization to learn more about opportunities for taking competitive advantage and threats referring to its survival.
- This will then be matched with company's internal strengths and weaknesses.

Scanning the Environment (cont'd)

- **Scanning strategy**
- Strategic uncertainty that arises from environmental factors pushes organizations to seek information and to try to diagnose the conditions that prevail in the environment. The higher the uncertainty is the greater the amount of time and resources organizations place on environmental scanning. Thus, for organizations to be efficient in scanning the environment appropriate "scanning strategies" should be followed and specific "sources of information" should be used.

Scanning the Environment (cont'd)

- **Types of business external environment**
- As mentioned earlier, business external environment is defined as all the factors outside an organization that are taken into consideration by the organization in its decision making.
- These factors depend on the complexity and dynamism of the environment.

Scanning the Environment (cont'd)

- **Types of business external environment (cont'd)**
- Thus, business external environment has been classified as being "stable", when it does not show any changes, "unstable" when it shows relative changes, and "dynamic", when it shows changes continuously.
- However, perceptions of the organizations about the type of the business external environment may depend on their size and industry in which operate.

Scanning the Environment (cont'd)

- **Environmental factors**
- Environmental uncertainty arises from the entrepreneur's inability to predict his environment, or in other words, to predict the factors that characterize his environment.
- These factors are usually classified into two groups; "general" and "task" business external environment factors:

Scanning the Environment (cont'd)

- **Factors of the general business external environment**
- The general environment is a relatively remote environment and the elements that compose it have an indirect influence on the organization. This environment is typically composed of factors such as social values, educational, political, economic, legal, behavioural, demographic, natural environment, natural resources, and technological.

Scanning the Environment (cont'd)

- **Factors of the task environment**
- The **task environment** is the closest environment of the organization and the elements that compose it have a direct influence on the organization. This environment is typically composed of factors such as consumers, competitors, suppliers, labour market, industry, and financial resources.

Scanning the Environment (cont'd)

- **Factors of the task environment (cont'd)**
- Factors in the task environment usually create greater perceived uncertainty to organizations than factors in the general environment. This is because the task environment, which is connected with the short-run, is more volatile than the general environment, which is connected with the long-run.

Scanning the Environment (cont'd)

- **Sources of information**
- Sources of information are usually classified as "external" and "internal". External sources of information originate outside the organization whereas internal sources of information originate within the organization.
- Furthermore, these two categories are sub-classified into "personal" and "impersonal" sources.

Scanning the Environment (cont'd)

- **Sources of information (cont'd)**
- Personal sources originate from personal contacts with people inside and outside the organization, whereas impersonal sources originate from sources such as documents, databases, etc. Although evidence referring to the importance of personal versus impersonal sources and internal versus external sources is not consistent, it is generally argued that personal sources are more important than impersonal resources and those external resources are more important than internal resources.

Topic 4

THE PARAMETERS AND ATTRIBUTES OF THE ENVIRONMENT



Parameters of the Environment

- Parameters of the environment under the acronym **LePESTI**
 - ❖ *The legal Environment - Bye-laws, specific statutes*
 - ❖ *The Political Environment- change in government policies, etc*
 - ❖ *Economic Environment – taxation, general demand, interest rates, exchange rates*
 - ❖ *Socio-Cultural Environment-Effect of cultural values, practices, belief systems –*
 - ❖ *Technological orientation*
 - ❖ *The Institutional Environment-*
 - ❖ *knowledge of Regulatory, Promotional, Facilitating institutions,*
 - ❖ *e.g. CEPS, GEPC, Standards Authority, EPA, Registrar General Dept*

Parameters of the Environment (cont'd)

- **Legal** – the way in which legislation in society affects the business. E.g. changes in employment laws on working hours.
- **Political** – how changes in government policy might affect the business e.g. a decision to subsidize building new houses in an area could be good for a local brick works.

Parameters of the Environment (cont'd)

- **Economic** – how the economy affects a business in terms of taxation, government spending, general demand, interest rates, exchange rates and European and global economic factors.
- **Social** – how consumers, households and communities behave and their beliefs. For instance, changes in attitude towards health, or a greater number of pensioners in a population.
- **Technological** – how the rapid pace of change in production processes and product innovation affect a business.

Parameters of the Environment (cont'd)

- **The Institutional environment** - There are many institutions in terms of departments, agencies and authorities whose activities affect the operations of any entrepreneurial activities in Ghana.
- The entrepreneur must also have a good working knowledge of these institutions. By their mandate these institutions are regulatory, promotional and facilitating institutions.
- Their activities are judged in terms of their efficiency and effectiveness.

Parameters of the Environment (cont'd)

- Unfortunately, their performance and efficacy are very poor and full of bureaucracy, very frustrating, inhibitive and making entrepreneurs incur a high *transaction cost* (TC). Examples of these institutions include:
 - Ghana Revenue Authority (GRA)
 - Ghana Standard Authority (GSA)
 - Ghana Export Promotion Authority (GEPA)
 - Environmental Protection Agency (EPA)
 - Registrar General Dept. (R-G Dept) etc.