

# THE IMPACT OF BUSINESS SYSTEM AND ITS ENVIRONMENT ON THE PERFORMANCE OF BUSINESS ORGANIZATION

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## **Abstract**

The objective of this study is to highlight the impact of business system and business environment on the overall performance of the business units. This is intended to help the business promoters and managers mobilize and coordinate appropriate resources that would enable them achieve the desired objectives. The profit attainment of a business organization is not based only on mobilization of adequate resource but also dependent on the extent to which it complies with, and handles its labour market, national and international competitor, government policies and regulations on production and distribution, changing technological innovations and the conditions of the sources of supply of its factor inputs. The efficiency and effectiveness in the management of these internal and external situations of the business organization will determine the level of its overall performance.

## **Keywords: Business, system, environment, performance**

Business is a word that has been viewed differently at different times. To some people, it means any establishment concerned with manufacturing, marketing or rendering services. To others, it means a transaction involving buying and selling. Yet to others still, it has been taken to mean a task or duty to be accomplished. Generally, business can be viewed as a means of satisfying human wants. Osuji (2004) sees it as a vital organ of the society that is responsible for providing the society with goods and services. A business enterprise as a business unit exists to meet the needs of a segment of the society. As the needs of society increase, so the varieties of business organisations increase.

As society becomes civilized and more complex, its needs cease to be basic food, shelter and clothing. People would need entertainment; hence, there are people engaged in entertainment business. Roads and bridges are needed; hence, the construction companies. For quick and reliable transport system, there is a wide variety of transport business.

## **Statement of the Problem**

Davies (2006) sees the term business organization as relating to the task of splitting up work, to the achievement of specific business objectives, of which the most important is earning profit as a result of producing goods and services. In some cases, the realization of this all important profit motive becomes very difficult. This is often as a result of the fact that the business organization has failed to take into consideration all the factors that would contribute to achieve the profit objective in its plan procedure. For the primary objective of profit earning to be fully realized, the business organization should take care of other objectives such as stability of labour force, improvement of the product's share of the market as well as improving the welfare facilities for workers. The major problem is the inability of the business enterprise to take into consideration the business environment which to a large extent, would influence the achievement of the organization's goal.

## **Significance of the Study**

The success of any business enterprise to a large extent, depends on how well it defines its objectives and how efficiently it sets out its resources to achieve these objectives. These objectives cannot be met unless the business organization takes into consideration all the factors that would influence its performance.

The study would inform the managers of business units that apart from profit motive, there are secondary objectives which would influence the achievement of profit motive.

The study brings to the knowledge of managers of business organizations the fact that the business cannot succeed without the effective involvement of its environment.

The study would further agitate promoters of business units to include in the feasibility study, the measures by which the proposed business would satisfy or comply with the requirements of its environment.

### **The Business System**

Business can be viewed as a system consisting of inputs, transformers of the inputs and outputs. The inputs of the business system are the business resources; the transformers of the inputs are management; and the desired outputs are the objectives of business.

#### **(i) Business Resources**

Oladapo (2004) sees business resources into human, monetary and material resources. They may alternatively be classified into physical, financial, and human resources. Physical resources include material and equipment. Human resources represent the work force or labour force.

Financial resources are used to procure the needed materials and equipment and to pay the necessary skills.

Oladapo (2004) went on to say that business starts when a business opportunity is identified. Business opportunities are created by environmental forces. Habits and priorities of the consumers may have changed, the market potential and trend improved, and the purchasing power of consumers may also have increased. These opportunities necessitate management action.

#### **(ii) Business Transformers**

The opportunities are thus, translated into objectives by management. Subsequently, management mobilizes human, material and money resources to realize its objectives. The process is not an intuitive one. It is very creative and rational. It involves setting the right objectives that take full advantage of the opportunities in the environment and yet are realistic in the light of the strengths and weaknesses of the firm.

#### **(iii) Business Objectives**

##### **(a) The Role of Profit and Social Responsibility**

Basically, behind the take-off of every business is the profit motive and behind its continuity is profit. It is the profit motive that drives shareholders into buying shares; it is the profit motive that leads into goods and services being produced, and it is the profit earned that ensures the continued existence and growth of the business. This is not to say that immediate profit should be the consideration.

A social responsibility neglected by a business at a particular time, a poor quality good delivered in an alluring package, or a right denied the customer in the course of seeking immediate profit could result in loss of product and corporate image of the business. In present day highly competitive market of branded goods, a bad image could be very damaging.

It is in view of this that business units are today much more socially responsible than before. They are interested not just in the quality of goods and services they produce, but their contribution to the quality of life in their environment. They appreciate that a gain in image and acceptance from the public could mean substantial enhancement of long-run profits. A loss in image could have the opposite effect.

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Image is therefore, viewed as a critical factor affecting profit. Business enterprises have to strive for it while striving for naira profit. They have to avoid pollution, ensure consumer satisfaction, and be interested in the over all welfare and development of the community in which they operate. They cannot afford to pursue profit blindly. They have to perform their social responsibilities.

Sufficient naira profit, therefore and not "maximum" naira profit should be the watchword in the short-run. The combined effort or seeking naira profit and good corporate and product image each time would ultimately yield the maximum possible overall profit in the long-run.

It is germane to mention at this point that, not all businesses have profit motive. Some businesses, particularly the public corporations such as Nigerian Television Authority and Railway Cooperation, are merely concerned with rendering some services to the public.

Whatever is the case, business organizations, whether profit-oriented or not, have to render satisfactory services. They have to ensure the satisfaction of consumers, employees, and the owners of the business. They also owe some social responsibility to the community at large, at least they must not jeopardize the community's welfare.

#### **(b) Quantifying and Prioritizing Business Objectives**

Business objectives are the desired results of a firm. Scientific management demands that as much as possible that these objectives should be quantified. Quantification makes measurement of performance easier and enables us compare plans with results. By so doing, it is possible to detect any serious deviations and also possibly trace the cause. Expressing objective in measurable terms thus, enhances planning.

However, an objective like improving relationship with government or improving local community acceptance may not be quantifiable, but manufacturing objective and personnel objective could be quantified.

It is important to note that sales and manufacturing objectives are directly linked to profit. Personnel objectives also have their relationships with profit. Some of the relationships may be conflicting as efforts to achieve one objective may be worsening the other objective.

The solution to the problem of interrelated and conflicting objectives lies in prioritizing the objectives; that is, attaching priorities to the objectives and forming them into a kind of hierarchy of priorities. The objective at the peak of the hierarchy becomes the primary objective. Management is interested in maximizing this primary objective subject to specified minimum tolerable achievement level of the other objectives.

The hierarchy of objectives is not static. As environmental factors change, a one time secondary objective may turn out to become a primary objective. It is also important to note that quantification does not end with corporate objectives. The sub-objectives which lead to the achievement of corporate objectives have to be quantified.

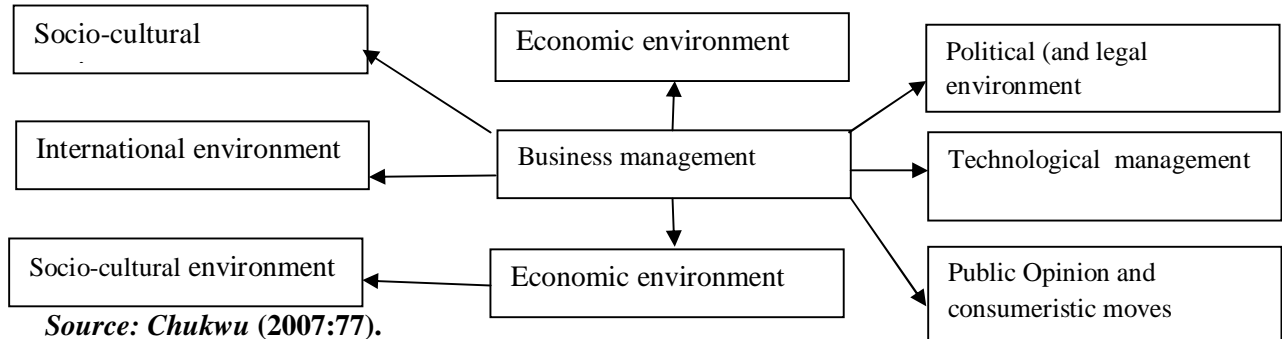
#### **Business Environment**

The society is a critical factor in the success of a business. No business operates in a vacuum. The society influences business and is influenced by business. It is the ability of a business to interact effectively with environment that ultimately determines its success.

A business environment consists of agencies and organizations outside the firm as well as all other factors outside its control, including the customers. Business and environment exist in a relationship

of mutuality. It is therefore, important to monitor environment continuously in order to interact with it effectively.

### **Classification of Business Environment**



It must be emphasized that these classifications are not water tight compartments. They overlap and are interrelated. For example, economic environment overlaps into international environment and relates to it. The classification enables us to organize our study of the environment and bring out the most critical issues.

### **Economic Environment**

Economic factors affecting business include pressures resulting from the nature of the economic system. Economic system refers to the way and manner goods and services of the country are produced and distributed. The major economic systems are the socialist, capitalist and mixed-economy systems. Each of them has its implications for business.

In the socialist system which does not allow private ownership of the means of production, government takes all the business initiative and does all the planning. Capitalist system on the other hand, permits private ownership of the means of production, and so enables firms to use their initiative to carry on production and distribution as they deem it fit. A mixed economy is a blend of capitalism and socialism. In it, private and public enterprises exist side by side as is the case in Nigeria. Other economic variable affecting business is the wealth of the people in terms of natural resources and factory output. These affect business especially when they constitute essential materials for production. Also significant is the distribution of income among the people. If money is concentrated in a few hands and the bulk of the population is poor, mass-consumed goods like milk may not receive the kind of patronage they should have received if everybody had enough to afford them.

The relative supply of the factors of production and the quality of these factors are not economic factors that affect business. The price level, the business cycle competition (internal and external) and labour union activities also affect business.

### **Legal/Political Environment**

Legal and political pressures on business include government activities. Price control measures, income and policy guidelines and indigenization decree are to mention a few.

Legal pressures on business could be seen in the numerous laws in a country affecting business such as safety laws, labour laws, anti-pollution laws, and laws governing the sale of goods. The laws may restrain involvement in some businesses, they may prohibit certain business practices and may even make unlawful the possession of some goods.

The term political environment covers a wide spectrum. Apart from embracing legal and government pressures, it has to do with the philosophy of the ruling political party. Every party has its own philosophy which it tries to actualize when it comes to power. The political philosophy of the ruling party is thus, a guide to the nature of control the government will exercise on business. Astute businessmen monitor such philosophies and are sensitive to them.

### **Socio-Cultural Environment**

The socio-cultural environment includes the changing habits and priorities of the people and how this environment is likely to affect the demand for the firm's products. The social life of the people, the role of the sexes, the people's customs and beliefs, all affect business. For example, in Nigeria, while pork is enjoyed in the southern areas of Nigeria, it is very much abhorred in parts of the North. Also it is only recently that women are beginning to be found in virtually all professions. In the past, this was not so. Engineering looked much like a preserve for men, so also was business administration. Today, the order has changed. The place of the women is no longer confined to the home and a few light jobs.

### **Technological Environment**

Technological environment consists of factors that affect the capability to produce goods and services. Changes in materials and/or processes may result in technological changes. Research is everyday throwing up new materials and processes. Science and technology are always changing. New tools, new machines, new techniques, new goods, all find their way into the market each day. With these changes, the risk of obsolescence increases. Less suitable technological methods would either have to give way to better ones or the company would eventually be thrown out of the market by the lower prices and better products of competitors.

### **International Environment**

Factors to take into account in studying international environment are: the adaptability of foreign technology and equipment to local environment; the different levels of inflation and the relative costs of international markets; international politics and the possibility of wars and conflicts and the importance is fluctuating exchange rates.

### **Ecological Environment**

Ecological factors like air, water, and noise pollution are currently receiving so much attention in the advanced countries. In Nigeria, traffic congestion and wastes disposal are striking ecological problems. This is clearly confirmed by the decision of the Federal Government to move the country's capital from Lagos to Abuja.

### **Industrial Environment**

Industrial environment refers to the firms with which a business shares many characteristics (Chukwu, 2007:87). In particular, it refers to the activities of competitors. Some knowledge of the industry in which a firm operates is essential for every firm within the industry. Some industries have restrictive practices that make entry or exit difficult. Government at times plays a part in this regard when it institutes restrictive regulations.

The nature and degree of competition varies from industry to industry. The way the market is shared by the firms in the industry reflects the degree of competition. Monopolistic competition, oligopoly and monopoly are the typical patterns. Each pattern has its implication for the nature of competitive strategies to be adopted by the firm.

### **Public Opinion and Consumerism**

Public opinion is very a powerful factor affecting business. The public reserves the right to accept or reject a product. Apart from this, the public has its image of every product and company. It is this image that determines the extent to which they patronize the company and its product.

Consumerism, which is customarily viewed as a movement aimed at protecting the consumers through enhancing the rights and powers of buyers in relation to sellers, has become an important factor. It is directed at ensuring safety, proper handling of consumer grievances, improvement of product warranties, and the provision of correct and adequate information to the consumers on the goods and services they are asked to buy.

Okeke (2008) believed that consumerism is a reaction to unethical and unfair practices in the market. It is a reaction to drug scandals, quackery, poorly constructed and hazardous products, false and inadequate labelling of products, misleading advertisements and overpriced goods. Consumerism emphasizes the need for business organizations to have a sense of responsibility and to respect consumer's interest and public opinion. To give consumers what they want, a business enterprise has to be sensitive to the feelings of consumers. It has to, among other things, ensure that its advertising claims are substantiated, that its sale's promotional techniques are fair and that the consumer is not being hoodwinked.

Products should be well checked and packed so as to be safe in use as well as after use. Necessary safety devices should be provided, labels and instruction leaflets should give correct and adequate information.

### **System and Environmental Impact on Business Performance**

Performance means the degree of success in achieving stated objectives (Lee, 2009). Probably, the best criteria of managerial performance relates to the ability to set goals intellectually, to plan programmes that will accomplish these goals and to succeed in achieving the goals. This performance is not measured in isolation. The managerial function of controlling is the measurement and correction of performance in order to make sure that enterprise objectives and plans devised to attain them are being accomplished (Koontz, Donnel and Weihrich, 2002).

Proper definition of organizational goal is the first step in ensuring efficiency and effectiveness in the performance of the organization. The business objectives clearly specify the expected target and every activity of the organization is geared towards the achievement of that target. Thus, the measurement of the performance of the business organization would be based on the level of the attainment of the target. One of the most outstanding measures of the performance of a business organization is by looking at its financial statement.

According to Okoye (2003), financial statements of organizations are about the only authoritative picture which shows the performance of the firms for the period under review. Financial analysis, he noted, relies ultimately on the evaluation of the past, the present and the future financial performance of the firm. Thus, when a firm sets a financial target, it would be in a better position to mobilize and co-ordinate all the necessary human and material resources that would enable it achieve the target taking into account the business environment.

The business objective and its environment enable the business organization to assess its performance at any given time. Essien (2014) at the 25th Annual General Meeting (AGM) of Ecobank while appraising the performance of the bank stated that despite regulatory headwinds in Nigeria and the challenging operating environment in 2013, the bank achieved most of the financial targets set out at the

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start of 2013. According to him, the net customer loans increased by 21%, exceeding the target of 10% growth. Customer deposits grew by 13% which fell short of the banks target growth of 20%. By setting these targets the performance of the bank in 2013 can be evaluated.

The environment within which the bank was operating also had its impact on the performance. According to Essien, there was a fall in recorded profit. This was as a result of increased impairment provisions which included the "US \$ 165 million provisions on legacy loans in Nigeria" which took up more than half of the banks pre-impairment profit. Further to this, "a higher effective tax rate" led to a sharp 45% fall in the net profit for the year.

Apart from the business environment, the business resources to a large extent, affect the performance of the business organizations. One of the most outstanding resources is the human. The overall performance of any business unit is highly dependent on the quality of the human resources employed. Manpower development and utilization is a necessary prerequisite for the attainment of set goals in any industry (Obiano, 2005). The appropriateness of the skills of the entrepreneur, the manager and the entire labour force-the subordinates, largely determine the performance of the business unit. Akeredolu-Ale (2007) observed that expatriate competition and image of indigenous entrepreneurial class pose serious problems for indigenous business performance but by far more important a source of failure was poor management and bad organization.

The government regulatory statutory bodies which are part of the business environment have serious impact of the performance of the business units, especially on the standard of the quality of their products. The Standard Organization of Nigeria (SON) for instance, is charge with the responsibility to investigate the quality of facilities, materials and products and establish quality assurance system. Similarly, National Agency for Food and Drug Administration and Control (NAFDAC) is to conduct appropriate tests and ensure compliance with standard specifications for the effective control of the quality of the designated products. These bodies set standards for the business units which they must strive to meet or they face serious sanctions. They provide the targets for the measurement of the performance of these business units in terms of quality and reliability.

### **Conclusion**

Business units, both in the private and public sectors, have experienced various levels of successes, challenges and setbacks, as can be seen in the measure of their performances. The performance of any business organization can be attributed to the extent to which the organization defines its objectives and mobilizes the resources to achieve the objectives. Further to the proper definition of the objectives is the adequate consideration of the business environment. In most cases, the business enterprises do not pay adequate attention to all the factors which are outside their control but which would eventually influence their performance.

It is pertinent to note that though the basic business objective is profit motive, the business organization must produce goods and services that satisfy the needs and desires of consumers as well as comply with the government policies that affect its production. In addition, the business enterprise should not lose sight of both the internal and international competitors, government policies and regulations and the technological changes that occur in the production and distribution process as these would have far reaching influence on its projected profit target and its overall performance.

### **Recommendation**

As the performance of the business organization to a large extent depends on the management's ability to handle the business system and its environment, business managers should pay adequate attention to the demands of the business environment. They should be very knowledgeable on the

adequate mobilization and co-ordination of the resource inputs to be able to achieve the desired objectives.

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