

VUSSC/Content/Entrepreneurship/Starting Up a Business/What Factors Influence the Business?

7. What factors influence the business?

Now that you have looked at some of the key concepts, and discussed the reasons for getting into business, you should examine factors that influence your type of business. There are many factors, some of them positive and others negative. We shall select a few, then as you read further, we expect you to come out with some of your own. Kotler and Armstrong (2004) have come up with several factors, and we discuss some of these below. How exactly do the factors impact on business? Let's examine each one in turn.

Cultural factors

The culture of a country refers to customary practices and beliefs that people uphold. Jarvis (2002) has observed that culture is made up of institutions and other forces that affect society's basic values, perceptions, preferences, and behaviours. The entrepreneur should remember that people grow up in a particular society that shapes their basic beliefs.

Culture affects the way consumers think and use certain products. As an example, in some cultures, it is not proper for women to deal with the public e.g. selling goods or wares. This is a crucial factor for business purposes. Firstly, should the mother of a family identify a business idea that is likely to bring income to the family, she will not be able to operate the business because of cultural constraints. Secondly, should she, nevertheless, go ahead and start a business, that might lead to conflicts in the family, and in turn that might cause the family to break up.



Reflection

Now, with reference to your own culture, which cultural aspects are likely to influence your type of business?

Economic factors

The economy of a country refers to activities in which people are employed to generate revenue. Two economic factors reflect a country's attractiveness for business. Firstly, its industrial structure shapes its product and services needs, income levels and employment levels. Secondly, in a subsistence economy the vast majority of people engage in simple agriculture. They consume most of their output and barter the rest for simple goods and services. In such a situation, there are few market opportunities for a business.

For example the economy of Botswana is based on diamonds and beef industry. The economy of Mauritius depends on tourism and agricultural production, specifically sugar production. How would the economy of your country affect your business? Let us imagine that you had set up a retail shop at a settlement where employees depend on diamond mining for their wages and salaries. Suppose the mine closes down because diamonds have been depleted or there is a slump in the industry. How does that impact on your business? To begin with, workers will be retrenched and can no longer have money to spend. Secondly, they might migrate to new places where they are offered jobs. This means you end up without customers, hence no income from the business. You will be left with goods that no one wants because your market has been affected. Eventually, you have to close shop.



Activity

Using the above as an example, cite an example from your own country in which economic factors affect your type of business

Your response should show that you understand the meaning of economic factors, then cite typical examples from your country to illustrate the impact of economic factors on business.

Political factors

So, what do you think are political factors? Nations differ in their political and legal approaches. Such factors should be taken into account when deciding whether to set up a business. Government bureaucracy is an example. This refers to the way a particular government facilitates or constrains business. If, as an example, only citizens are allowed to operate certain types of business, that means non-citizens will find it difficult to start up businesses even though they have the capital to do so.

Political instability is another factor. A country is said to be politically unstable if there is violence or when there is no rule of law. Unstable political situations discourage business. As an investor, you may not feel safe to set up a business where there is no assurance of security.



Activity

With reference to your own country, suggest examples of bureaucracy and political instability as hinderances to setting up business enterprises.

Bureaucracy and political instability will vary from one country to another. In some cases there might be no instability. However, your response ought to demonstrate an understanding of these two concepts, relative to setting up business ventures in the context you are familiar with.

It can also be noted that for a given country, well-conceived regulations can encourage entrepreneurship, and ensure fair business practices. Thus, governments develop public policies to guide business practices. This is done through a wide range of laws and regulations.

The government of Botswana, for example, encourages investment by foreigners and non-citizens. However, the law prescribes that certain businesses be confined to citizens only. In other instances, the law allows non-citizens to enter into joint ventures with locals. The idea is to ensure that business interests of citizens are protected from unfair competition.



Reflection

With reference to political factors in your country, share your views on how setting up businesses is regulated by law.

Environmental Factors

The environment of a business can be both physical and political. In business terms, the physical environment refers to the place where your business is situated. Location will determine the success or failure of the business. If you were to locate the enterprise, say a hotel, in a place where there are bad roads, it is most likely that customers will not be able to reach you. So, in that case, the environmental factor would be a major constraint for setting up the enterprise.

Natural resources are an important environmental factor. These are needed as inputs by entrepreneurs. Business persons should, therefore, be aware of trends in the natural environment. While this may not apply to your country, just read this explanation closely.

In many countries, shortages of raw materials can affect setting up businesses. Air pollution chokes many of the world's cities, while water shortages are already a big problem in many parts of the world.



Reflection

- Are you aware that some countries experience serious water shortages?
- Further, have you ever thought how shortage of water, or air pollution can affect the establishment of businesses?
- What shortages are experienced in your country?

Fuel is yet another environmental factor that impacts on business. Most countries in Southern Africa (e.g. Botswana, Zimbabwe, Zambia, Malawi, to name a few) have the greater percentage of their populations living in rural areas.

Entrepreneurs who set up businesses in rural areas have to contend with serious transport problems. This is because prices for petrol and diesel continue to escalate. In turn, the prices of commodities inevitably go up, and these have to be passed on to rural consumers, who are largely poor and can ill afford the high prices.

References

Kotler, P. and Armstrong, G. 2004. Principles of Marketing. Upper Saddle River, New Jersey: Prentice Hall.

Jarvis, S. "Red, White, and Blues". Marketing News. May 27, 2002, pp 1-9

Introduction | Objectives | What is Business Management? | What is meant by Entrepreneurship? | What are the different business types? | How is a business idea developed? | What Factors Influence the Business? | The importance of a business in a country | Summary

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