The Impact of Macro-Environmental Factors on Business Performance

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ABSTRACT

This paper x-rayed the impact of macro-environmental factors on business performance in Nigeria. The narrative appraisal adopted in this paper showed that macro factors exert influence on and shape. growth and development of businesses in developing economies such as Nigeria. The macro-environment bears more relevance to strategic management, and businesses adjust to the external environment. It further revealed that the government now plays more of a regulatory role in the business environment in some sectors of the economy, and that, though certain measures had been put in place at various levels to engender a conducive business environment for private sector participation, macro (external) factors such as high interest and inflation rates, terrorism, culture, religion, volatile exchange rates, susceptibility of the economy to external shocks, etc., escalated cost of doing business and, thus, posed serious threats to firms performance. Therefore, the paper concluded that macro environments have a significant impact on the success of business activities, and hence such environmental factors must be considered seriously during the process of creating a strategic business plan. Considering these factors will improve the success of the business marketing campaign and the reputation of the brand in the long term. Consequently, reconsideration of such environmental factors that impose unnecessary constraints on businesses was recommended.

Keywords: Micro and Macro Environment. Companies, Businesses, Markets

INTRODUCTION

Business stability and profitability are dependent on its ability to quickly identify and respond to changes in the environment. Change is inevitable and having the flexibility to deal with unexpected market mutations can mean the difference between survival and extinction for an organisation. Business or market environment is composed of all the factors that impact the operation of the business. The business must act or react to keep up its flow of operations. In other words, an organisation can never exist and operate "in a vacuum". It is a part of a larger entity known as the business environment. In broad terms, this environment can be divided into two categories. The first one is the micro-environment. This category influences the functionality of a particular business itself. The latter one is the macro-environment which affects the operation of all existing business entities out there.

The micro (internal) environment consists of customers, competitors, suppliers, dealers and Distributors, investors and the general public. However, the macro (external) business environment consists of economic environment, social and cultural environment, political environment, legal environment, technological environment, natural environment, international environment, task/competitive/operating environment. Economic factors throw light on the nature and direction of the economy in which a firm operates. Consumption patterns are usually governed by the relative affluence of market segments (Yinusa, 2018). Nevertheless, this paper will be focusing on the latter which is the macro environment.

All over the world, business organizations are being operated within macro environments, with their factors characterized of challenges to the existence of firms and industries in an economy. The challenges faced by businesses within the macro environment are enormous and need to be dealt with to ensure a favourable working environment for firms and industries to thrive. Ordinarily industries/firms are established to prosper, increase sales volume, increase profitability, enhance growth, generate employment opportunities, and as well as generate high revenue/income to the shareholders (Sahikh, et al., 2019). Hence, this paper looked at the impact of macro-environmental forces on business performance. It addresses the following:

– Conceptual Review

– Theoretical Review

– Conclusion

– Recommendations

CONCEPTUAL CLARIFICATIONS

Environment

The environment is dynamic and is constantly changing in nature, due to many and varied influences operating in it, causing it to change in shape and character. The environment is multifaceted: What shape and character an environment assumes depends on the perception of the observer. A particular change in the environment, or a new development, may be viewed differently by different observers. This is frequently seen when the same development is welcomed as an opportunity by one company while another company perceives it as a threat. The environment has a far-reaching impact: The environment has a far-reaching impact on organization. The growth and profitability of an organization or business depend critically on the environment in which it exists (Campbell, as cited in Ugwu, et al., 2020).

MACRO ENVIRONMENT

Macro environment can be described as the collection of those factors and conditions, which has the capability of influencing the business positively or negatively. The macro-environment refers to the broader business environment as a whole. While this can include political, technological, and other factors, the most relevant ones are all economic (Thomas, 2020). A macro environment is the condition that exists in the economy as a whole, rather than in a particular sector or region. In general, the macro environment includes trends in the gross domestic product (GDP), inflation, employment, spending, and monetary and fiscal policy. The macro-environment is closely linked to the general business cycle as opposed to the performance of an individual business sector (Khartit, 2020). The macro-environment is more general. It is the environment in the economy itself. It has an effect on how all business groups operate, perform, make decisions, and form strategies simultaneously. It is quite dynamic, which means that a business has to constantly track its changes. It consists of external factors that the company itself doesn’t control but is certainly affected by (Sahikh, et al., 2019).

COMPONENTS OF MACRO ENVIRONMENT AND IT IMPLICATION ON BUSINESSES PERFORMANCE IN NIGERIA

Some of the factors that make up the macro-environment are political factors, technological factors, economic policies, social factors, and legal factors (Ugwu, et al., 2020).

Political Factors

The political factors refer to the influence exerted by the three political institutions viz., legislature, executive and the judiciary in shaping, directing, developing and controlling business activities. A stable and dynamic political environment is indispensable for business growth. The debate on the relationship between business actors and political actors builds mainly on the assumption of a coherent regulatory environment where political institutions regulate business firms and their behavior in a one-dimensional manner, that is, political organizations have legitimate power to affect business firms, but business actors have no such power (Pourmand, 2021). Walter as cited in Ugwu et al (2020) asserts that the implication of political environment to a business is that the risk emanating from it is a measure of likelihood that political events may complicate its pursuit of earnings through direct impacts (such as taxes or fees) or indirect impacts (such as opportunity cost forgone). As a result, political risk is similar to an expected value such that the likelihood of a political event occurring may reduce the desirability of that investment by reducing its anticipated returns.

More so, there are political risks or events arising from nongovernmental actions, factors that are outside the government responsibility. There are wars, revolution, coup d'etat, terrorism, strikes, extortion, and kidnappings (Andoh, 2007). They all derived from some unstable social situation, with population frustration and intolerance. All these risks can generate violence, directed towards firms' property and employees. There may also be the case of externally induced financial constraints and externally imposed limits on imports or exports, especially in case of embargoes or any economic sanctions against the host country.

Technological Factors

These factors are related to skills and ability that are implemented into production, as well as all the materials and technology that a particular product requires to be made. They are essential and can have a big impact on how well your business is running. It boils down to even the most basic factors, such as what kind of maintenance trolleys you use in order to preserve your tools and equipment for as long as you possibly can. Technological factors are variables that are being used for evaluating available alternatives with respect to technological capabilities. Organizations consider it an important tool for improving operations and functions. Technological factors are one of various external environment factors that affect businesses greatly and are also an integral component of the PESTLE analysis (Khartit, 2020). They can determine barriers to entry, minimum efficient production level and influence outsourcing decisions. Technological shifts can affect costs, quality, and stimulate further invention, innovation and competition (Nwokah, 2018). Technology trends according to Crossan and Apaydin (2020) affect businesses on many levels. When an employee is efficient, he turns out to be productive. Additionally, when a business is more in touch with its present and potential customers, the more chance it has to build a strong customer loyalty base. Advancement of technology can make this possible. Strategic leaders are constantly looking for development and updates within the technological environment. In this way, they not only improve their operations but, they will also be well aware of business transformational phase. They will derive groundbreaking strategies to grow exponentially. Technology is influenced by government spending on research, new discoveries and development, government and industry focus of technological effort, speed of technological transfer and rates of obsolescence.

Economic Policies

An economic policy is a course of action that is intended to influence or control the behavior of the economy. Economic policies are typically implemented and administered by the government. Examples of economic policies include decisions made about government spending and taxation, about the redistribution of income from rich to poor, and about the supply of money (Cliffs, 2020). Also, these policies have to do with exchange rate, unemployment, demand and supply trend, economic growth, lending rates, exchange rates and the inflation rate. These factors have major impacts on how businesses operate and make decisions. For example, lending rates affect a firm's cost of capital and therefore the extent to which a business grows and expands. Exchange rates affect the costs of exporting goods and the supply and price of imported goods in an economy. Lumen (2020) highlights impact of some economic factors on businesses and companines.

Social Factors

Social factors can be defined as the ways in which changes in society affect the organization. Cultural distances between the home country and the export country such as culture, values, language and social structure may influence the company's way of entering the market (Cheverton, 2021). Some examples of social factors are baby booms, changes in life expectancy and morality, number of population and within population groups, substance of households, and local conflicts and national wars. Most of these can be classified as either social factors or economical factors (O'Connor, 2020; Yadin, 2022). These factors affect marketing strategies and human resources for companies, limiting the ability for them to perform (Kermally, 2021).

Legal Factors

The legal factors are policies and legislative regulations which are barriers for business entry to the market, this is made by restrictive import policies; high tariffs, tight quotas and other barriers are some examples (Leonidou, 2022; Root, 2019). Barriers like these protect a country's own production from foreign. The higher these barriers are the more attractive is local production (Porter, 2019; Leonidou, 2022). According to Porter (2019) other legal barriers are world laws concerning bribes and taxes if they are set to negatively influence the global trade. Customs documentation and shipping arrangements are other issues that make it often hard and costly for small firms to export (Leonidou, 2022). Technical norms, different legal restrictions and building regulations bring out different variants of products on the national market. One of the main barriers for global competition, which suffers when national markets require different products, are the cost of changing the products so they meet national market needs (Porter, 2019).

Business Performance

Performance refers to the degree to which an achievement is being or has been accomplished. Business performance is defined as the ability of a business to implement a strategy to achieve organizational objectives. It refers to a company's achievements measured using a number of metrics known as key performance indicators (KPIs). These KPIs include; profitability, productivity, sales/profit/employment growth, customer satisfaction ratings, order delivery, delivery time, improving market share and many more (Awaysheh, et al., 2020). In other words, business performance is seen as a firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues (Awaysheh, et al, 2020).

Components of a Business Performance as Used in the Study

i. Profitability

Profitability is the ability to make a profit from all the commercial operations of an entity, corporation, firm, or enterprise. It tests the effectiveness of management in the use of organizational resources in adding value to the business. Profitability can be considered to be a relative concept that can be calculated in terms of profit and its relationship with other elements that can directly impact profitability. Profitability is the income relationship with some indicator of the balance sheet that shows the relative ability to gain asset income. Even though profitability is an important aspect of the industry, this window dressing of financial transactions and the use of various accounting standards can be met with some weakness. To thrive and expand over a long period, a business should earn income (Ugwu, et al., 2020).

Profits are important, but not all management decisions should be profit-centered at the detriment of client, employee, supplier, or social impact issues. The benefit is the difference over sometime between sales and expenditures (usually one year). Profit is a company's overall 'production,' and if it fails to make adequate money, it will have no future. The profitability ratios are estimated to measure the company's operating performance (Runyora, 2022). Profitability assessment is the same as calculating a business's performance. During the business year, an income statement provides a summary of income and expenditures. The profitability ratio is one indicator of the profitability of a business. Profitability ratios analyze a business's financial health. Concerning revenue, total assets, and net worth, a profitability ratio looks at how profit is gained (Hunt, 2018).

ii. Output

The value of efficiency in the workplace is recognized by every productive and effective business organization. Being effective would help the organization increase and use the potential of the human capital it has. Many profitable enterprises, which are the basis of a successful company, have happy and safe workers. Workplace productivity/output can also translate into good customer service and communication (Andy as cited in Ugwu, et al., 2020). The secret to pleasing clients and consumers is this complete customer experience, and almost all highly profitable businesses use this to achieve customer loyalty. More often than not, it ultimately becomes efficient when a business is highly productive; and because of this, rewards are bound to be made available to the employees. That includes increases in salaries, bonuses, medical benefits, etc. This will also inspire and offer workers more career opportunities as the company expands (Andy as cited in Ugwu, et al., 2020).

THEORETICAL REVIEW

There are various theories which are directly linked to the study. However, the study considered only contingency theory.

The Contingency Theory

The study is anchored on the contingency theory as propounded by Fieldler in 1967 in his work a theory of leadership effectiveness. Ile (1999) asserts that the contingency approach to management is of the view that the management technique that best contributes to the attainment of organizational goals might vary in different types of situations or circumstances. He went further to say that modern theories of organization and management were developed largely since 1917 by the contribution made by Alfred, Korzybaki, Mary Parker-Follent, Chester, Barnard and Norbert Wiener, etc. Contingency theory is guided by the general orienting hypothesis that organizations whose internal features best match the demands of their external environments will achieve the best adaptation (Scott, et al., 1967). The more homogenous and stable the environment, the more formalized and hierarchical the form. Their view is ecological – those organizations that can best adapt to the environment will survive.
The main underlying contingency are:
Businesses are open systems that need careful management to satisfy and balance internal needs and to adapt to environmental circumstances.
There is no one best way of organizing. The appropriate form depends on the environment one is dealing with. Different types of organizations or businesses are needed in different types of environments.

Contingency theory is an outgrowth of systems design. Scott adds that in contingency theory "the best way to organize depends on the nature of the environment to which the business or organization relates". The environment has a far-reaching impact on businesses. The growth and profitability of any business depend critically on the environment in which it exists. Any environmental change has an impact on the business in several different ways.

CONCLUSION AND POLICY RECOMMENDATION

This paper has evaluated and appraised macro (external) environments, with specific reference to business performance. The evaluation has shown that macro environments have a significant impact on the success of business activities, and therefore such environmental factors must be considered during the process of creating a strategic business plan. Considering these factors will improve the success of the business marketing campaign and the reputation of the brand in the long term. Consequently, this paper recommends reconsideration of some macro-environmental factors that impose unnecessary constraints on businesses in Nigeria. Specifically, multiple tax systems should be jettisoned; exchange rate stability should be pursued; the Freedom of Information law should not be taken for granted; infrastructure, especially electricity, should be strengthened. Businesses should minimize and find a way around their weaknesses by making a paradigm shift from internal factors that weaken management efficiencies.

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