

MODULE-III

VARIOUS MACRO FACTORS AFFECTING INTERNATIONAL BUSINESS ENVIRONMENT

MACRO-ENVIRONMENT

Macro environment is the remote environment of the firm, i.e. the external environment in which it exists. As a rule this environment is not controllable by the firm, it is too huge and too unpredictable to control.

Hence the success of the company, to a large extent will depend on the company's ability to adapt and react to the changes in the macro environment. Primarily the company has to closely monitor the various elements of macro environment. This will help them understand the dynamic nature of the macro environment. It also helps them adapt to the constant changes in the environment. The factors that make up the macro-environment are economic factors, demographic forces, technological factors, natural and physical forces, political and legal forces, and social and cultural forces.

Various Macro factors affecting International Business Environment

1. Political & Legal
2. Economic Environment
3. Social & Cultural Environment
4. Technological Environment
5. Ecological & Physical Environment
6. Demographic Forces

Political & Legal Factors: - The political environment of a country is the combination of three branches of the government – legislature, executive and the judiciary. The political environment of a country will mainly depend on the political beliefs and ideologies of the party in power at the state and central levels.

The legal environment refers to the rules, laws, regulations, and judgments etc. that affect the functioning of a business. And this will also include the taxation laws and the Budget for the given year. So stable legal and political government is really important if the business and the economy as a whole has to succeed.

This generally includes legal factors such as:

- Copyright law
- Employment law



- Fraud law
- Discrimination law
- Health and Safety law
- Import/Export law

Economic Factors: - The economic conditions of the economy and the performance of a business have a very close relationship. A business depends on the economy for all its inputs and factors of production. It also sells its products and services in the same market.

A market is never in one stable condition. It is always in a flux. If there is a boom in the market then all businesses will benefit from the favorable conditions. The income will be higher, rate of interests will be low, new capital will be available etc. Also, the opposite is also true in case of a bust.

Some examples of economic factors affecting business:

- Interest rates
- Exchange rates
- Recession
- Inflation
- Taxes
- Demand / Supply

Social Factors: - The social values and culture of an environment play a huge role in the functioning of the company. So when the social environment changes it can have a direct or indirect effect on the company.

For example in recent time society has seen a shift, and people no longer retire at 60. They work five to ten years more after sixty. So this has had a huge impact on companies.

Cultural forces also have a significant impact on the success of a company in the long run. Especially in a country like India where the cultural influences are strong and complicated.

There is a wide variety of social and cultural factors, some of them being:

- Purchasing habits
- Level of education
- Religion and beliefs
- Consciousness about health issues
- Social classes
- Structure and size of a family

- Growth rate of the population
- Emigration and immigration rates
- Life expectancy rates and age distribution
- Different lifestyles

Technological Factors: - In the times we live in, technology is constantly changing it is important that the business can keep up with the changes. Technology does not only confine to computers and IT services. It includes products, manufacturing processes, techniques etc.

The technological developments can be a huge advantage for a firm. But at the same time of the technology used by the firm becomes obsolete due to such developments, then it can also be a threat to the firm.

Some of the most common technological factors are:

- Automation
- Internet connectivity
- 3D technology
- Speed/power of computer calculation
- Engine performance and efficiency
- Security in terms of cryptography
- Wireless charging

Environmental Factors: - Environmental factors have come to the forefront only relatively recently. They have become important due to the increasing scarcity of raw materials, pollution targets and carbon footprint targets set by governments. These factors include ecological and environmental aspects such as weather, climate, environmental offsets and climate change which may especially affect industries such as tourism, farming, agriculture and insurance. Furthermore, growing awareness of the potential impacts of climate change is affecting how companies operate and the products they offer. This has led to many companies getting more and more involved in practices such as corporate social responsibility (CSR) and sustainability.

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Ecology & Physical Environment

Ecology and physical environment play a huge part in the performance of any business. This is especially true for manufacturing/production companies. Let us take the example for global warming.

This change in our physical environment has started affecting the rainfall in certain regions. This in turn may affect the crops and cause a shortage in raw materials such as jute, cotton, rubber etc.

Weather conditions, topographical elements, geographical location, climate changes and other ecological factors are a very important element in the macro environment of a business.

Demographic forces

Each and every chunk of the market is affected by universal demographic forces. These are age, education level, cultural characteristics, country and region, lifestyle, and so on.

The crucial variables include:

- How income variables influence business
- Age variables that affect business
- Geographic Region Variables
- Education Level as a Variable
