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Management in Practice

M5X02110 – Level 5

5: “It’s good to share”

Analysing the
External Operating
Environment 3:
Social/Technological



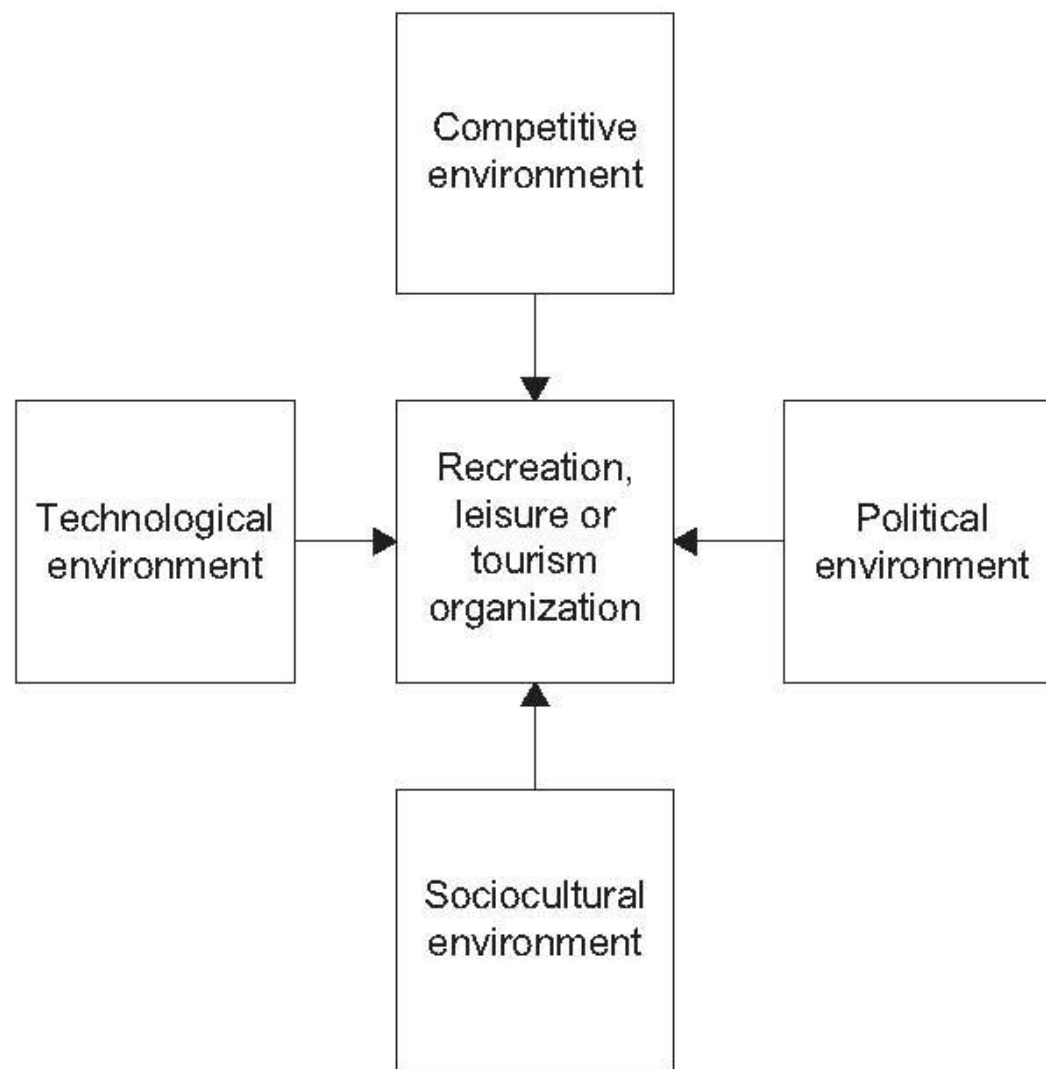
Spring Statement 2018

Watch the statement and note down the key macroeconomic factors mentioned which affect the UK business environment and your case study

- <https://youtu.be/pE4SA1kis4c>

Reaction:

- <https://youtu.be/OAhzij5Rh18>





**Social
Technological
Environmental
Factors**



Political factors affecting business

- Government actions/other political events
- Major events (wars, terrorism, disasters)
- Change of government & policy
- Sector specific policies
 - tax policy (VAT/air passenger duty)
 - smoking ban
 - alcohol minimum pricing

Economic factors affecting business

- Rising costs of raw materials
- New competitor entering market
- Measures announced in the budget/autumn statement
- Changes in policy overseas
- Cost/availability of money for investment
- Current UK and world economic performance

Microeconomic environmental issues

- All economic factors *specific* to that particular firm operating in its own particular market
- Competition?
- Changing consumer tastes?
- Constant consumer demand?
- Rising/constant/falling costs?

Macroeconomic environmental issues

- *National and International* economic situation in which a business operates
- Business generally performs better when there are periods of economic growth; worse in a recession
- Government economic policy impacts on *business* – taxation, interest, exchange rates have a major effect on firms

Social/Cultural environmental issues

These include the make-up of society, for example in terms of its

- population structure
- levels of education
- social class
- attitudes and values

Activity

Work in small groups to identify 6 key social and environmental trends which could affect how businesses/organisations operate

Social/Cultural environmental issues

- Attitudes to working conditions and length of the working day
- Equal opportunities for different groups of people (ethnicity/gender/appearance/age, etc)
- The nature and purity of products
- The use and abuse of animals
- Images portrayed in advertising
- Social trends – e.g. ageing population
- Work/life balance – e.g. working whilst bringing up small children
- Ethical issues such as environmentalism impact on how firms behave/the image they try to portray

Managing the social impact of tourism

- Involves a choice between
 - Integrating visitors into the local community as far as practicable, while controlling overall numbers of visitors and
 - Concentrating visitors within specific areas of the region, thus limiting their impact on the local community

Local benefit from tourism

Locals are most able to benefit from tourism inflow if:

- Developers and local authorities consult with them during the development process
- Developers ensure locals are offered employment at all levels
- Locals have access to adequate skills and management training
- Finance is made available to encourage local investment in tourism businesses

The 10 principles of sustainable tourism

1. Using resources sustainably
2. Reducing over-consumption and waste
3. Maintaining diversity
4. Integrating tourism into planning
5. Supporting local economies
6. Involving local economies
7. Consulting stakeholders and the public
8. Training staff
9. Marketing tourism responsibly
10. Undertaking research

Technological environmental issues

- We live in times of significant technological change
- Big impact on how firms produce, advertise and sell their products
- Growth in online shopping means firms can offer goods and services globally now
- Big issues for high street retailers as a result
- Has changed how business is organised – growth of small online stores
- Impact of the sharing economy
- Robots/computer controlled production has changed what people now do
- IT has improved global communication and connectivity
- Flexible/home/mobile/holiday working have grown

Legal environmental issues

The legal framework in which they operate affects businesses:

- Employment legislation
- Product safety standards
- Regulation and pricing
- Competition laws
- The public interest
- EU law
- Training support – apprenticeship levy
- Sector skills development

Consider the main laws which impact on your case study's operations – are changes planned?

Environmental issues

- Increasingly important to business and in politics
- Green agenda
- Increased environmental awareness by customers
- Green is good for image
- Can help sales/investment

Technological environmental issues

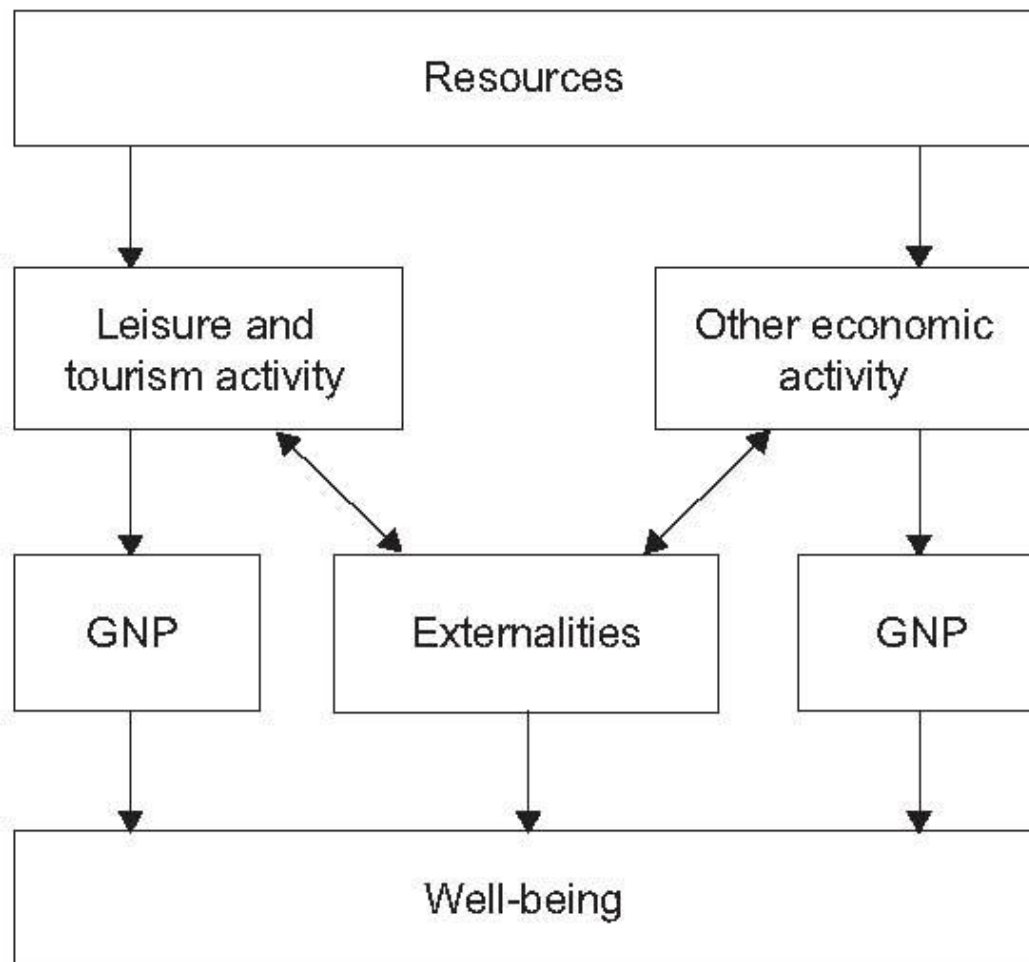
Technological change offers two key opportunities for LET organisations:

- it can lead to cost reductions
 - it can provide new products and markets.
-
- However, technological change also poses threats where existing products become obsolete in the face of new developments.

The **technological** environment



What are the opportunities and threats in the technological environment for airlines?



Environmental Impacts:

Externalities

- Externalities are those costs or benefits arising from production or consumption of goods and services which are not reflected in market prices.
- Because of this, there is little incentive for firms to curb external costs since they do not have to pay for them.
- Externalities can be positive or negative (good or bad).

Externalities

- Production on production
 - one firm's external costs interfere with the operation of another firm
- Production on consumption
 - industrial externalities affect individuals' consumption of a good or service
- Consumption on production
 - external costs of consuming a good or service interfere with a firm's production process
- Consumption on consumption
 - external effects of an individual's consumption of a good or service affect the well-being of another consumer



Overcrowding in Prague
(consumption on
consumption)

Types of environmental taxes and charges

Motor fuels

Other goods

Air transport

Water

Other energy products

Direct tax provisions

Agricultural inputs

Waste disposal

Vehicle-related taxation

Types of environmental taxes and charges

Motor fuels

Leaded/unleaded

Diesel (quality differential)

Carbon/energy taxation

Sulphur tax

Other energy products

Carbon/energy tax

Sulphur tax or charge

NO₂ charge

Methane charge

Agricultural inputs

Fertilisers

Pesticides

Manure

Vehicle-related taxation

Sales tax depends on car size

Road tax depends on car size

Other goods

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Air transport

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Vehicle-related taxation

Sales tax depends on car size
Road tax depends on car size

Other goods

Batteries
Plastic carrier bags
Glass containers
Drink cans
Tyres
CFCs/halons
Disposable razors/cameras
Lubricant oil charge
Oil pollutant charge
Solvents

Waste disposal

Municipal waste charges
Waste-disposal charges
Hazardous waste charges
Landfill tax or charges
Duties on waste water

Air transport

Water

Direct tax provisions

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Air transport

Noise charges
Aviation fuels

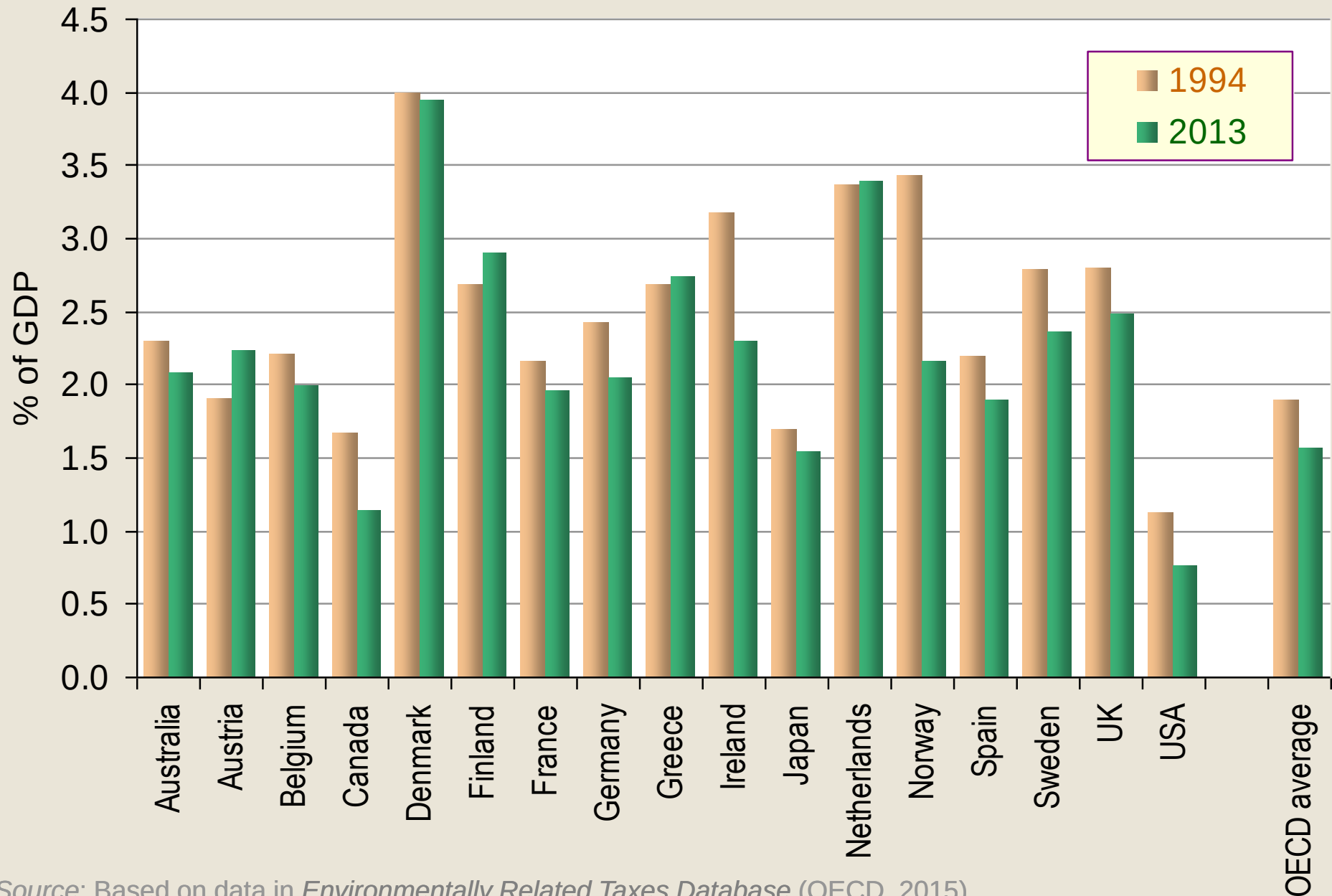
Water

Water charges
Sewage charges
Water effluent charges
Manure charges

Direct tax provisions

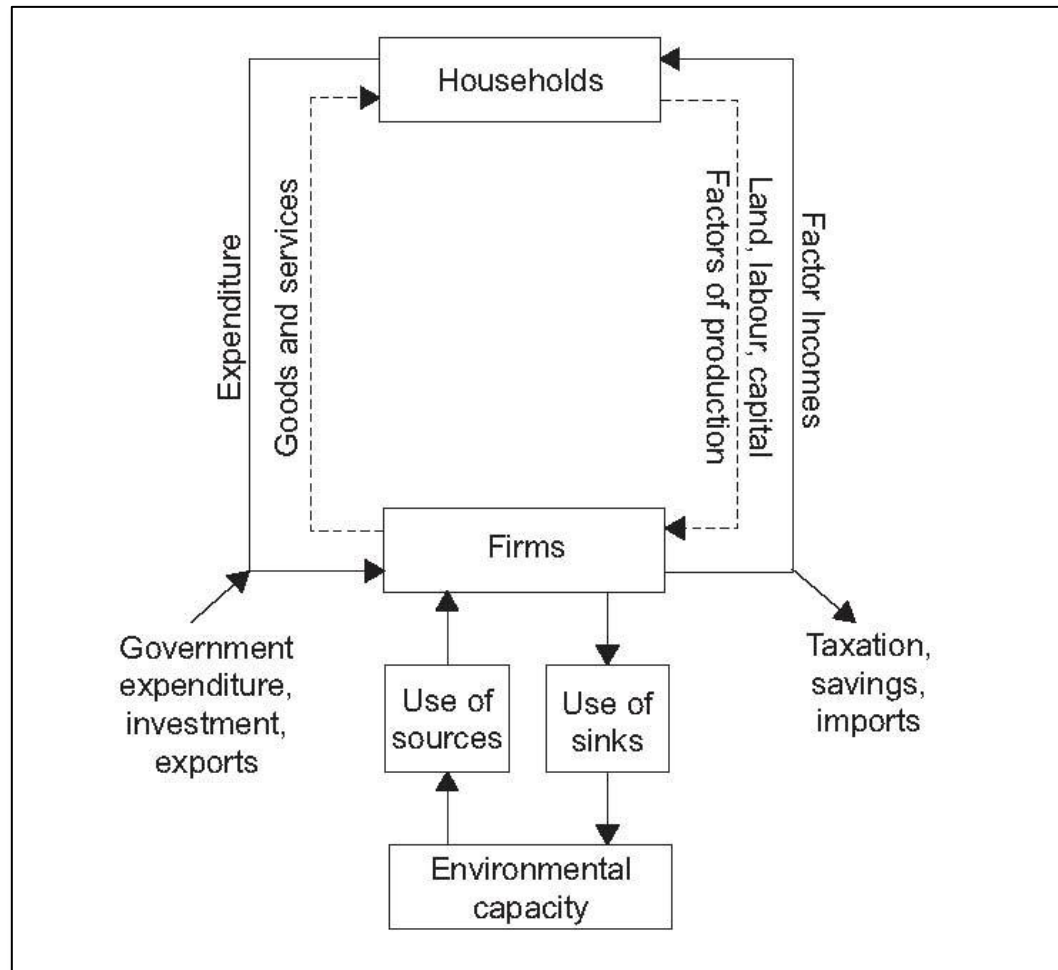
Tax relief on green investment
Taxation on free company cars
Employer-paid commuting expenses taxable
Employer-paid parking expenses taxable
Commuter use of public transport tax deductible

Green tax revenues as a percentage of GDP



Source: Based on data in *Environmentally Related Taxes Database* (OECD, 2015)

Incorporating environmental dimensions in macroeconomic modelling



Alternative measures of well-being

- Index of Sustainable Economic Welfare (ISEW)
- Happy Planet Index (HPI)

HPI rank	Country	Life expectancy	Well-being (0-10)	Footprint (gha/capita)	Happy Planet Index
1	Costa Rica	79.3	7.3	2.5	64.0
12	Cuba	79.1	5.4	1.9	56.2
41	United Kingdom	80.2	7.0	4.7	47.9
60	China	73.5	4.7	2.1	44.7
76	Australia	81.9	7.4	6.7	42.0
102	Hong Kong	82.8	5.6	5.8	37.5
105	United States of America	78.5	7.2	7.2	37.3
151	Botswana	53.2	3.6	2.8	22.6

Source: Happy Planet Index; <http://www.happyplanetindex.org/data/>

The Tragedy of the Commons

- Hardin (1968) conceptualised 'the tragedy of the commons' where there is little incentive for good stewardship.

- Oceans
- The atmosphere

e.g. plastics pollution

Recreation, leisure, tourism and the environment

- The sector very much depends on the environment for its success.
- But the richer the environment, the more recreational activities are drawn to it.
- The more economic activity, the more the potential negative impacts on the environment.
- Therefore the sector has the potential to destroy the very environment upon which it depends – pristine beaches, coral, attractive countryside, flora and fauna (loss of biodiversity).
- Recreation, leisure and tourism can contribute to environmental impacts at the local and global level.

Tourism and the environment

Tourism is perceived as a major despoiler of the environment

- Transport pollution (air, sea and river and automobiles) leading to air, noise and water pollution
- Congestion (roads, buildings, airports and sites)
- Overdevelopment or inappropriate development
- Visual pollution (billboards advertising tourist resources, insensitive designs or materials, litter and graffiti)

Local environmental impacts

At the local level impacts can be classified as:

- impacts on natural resources
- pollution
- physical impacts
- displacement

Impacts on natural resources



- Water
- Energy, food and other raw materials
- Forests, wetland, wildlife and coastal areas
- Pictures show:
 - snow cannon, Meribel
 - water to irrigate grass in Sharm, Egypt

Water: Goa



Water: Goa



Water: Gold Coast



Noise impacts



- Plane landing over local houses at London Heathrow
- Issues:
 - runway alternation
 - night flights
 - new runways

Impacts on natural resources

Environmental economics distinguishes between two types of resources:

- ***non-renewable resources*** are those which have a fixed supply. Once they have been used up, there will be none left for future generations
- ***Renewable resources*** are those which are capable of being replenished

Renewable resources

- An important renewable resource for large-scale tourism development in some parts of the world is water.
- Resources such as footpaths, public parks and golf courses also have a renewable resource element to them.
- Carrying capacity:
 - ‘the maximum number of people who can use a site without an unacceptable alteration in the physical environment and without an unacceptable decline in the quality of experience gained by visitors’ (Mathieson and Wall, 1982)

Non-renewable resources

- Landscapes, views, open spaces and tranquillity represent non-renewable resources in the leisure and tourism sector.
- An important consideration concerning the use of non-renewable resources is the rate of depletion and hence the level of resources bequeathed to future generations.

Pollution



- Air pollutants



- Noxious discharges

Pollution



- Solid waste
- Sewage
- Visual pollution (pictures) plus ...



Littering



Physical impacts



Specific impacts from recreational activities include

- damage by trampling or mountain bikes on vegetation (see photo)
- the impact of water-based recreation on marine ecosystems such as coral reefs
- and animal distress and displacement from safaris.

Physical impacts



- Off-road driving, Masai Mara, Kenya
 - loss of vegetation (particularly when wet)
 - damage to nesting birds
 - impact on small mammals
- Tourist vs. habitat interests: who wins?

Displacement

- Price inflation and property prices may rise as a result of tourism and recreation developments
- Makes it increasingly difficult for those not participating in the development and thus benefiting from rising wages and profits to remain in the area.

e.g. population of Venice

Global impacts



- Loss of biological diversity
- Depletion of the ozone layer
- Climate change
- Resource depletion and peak oil

Loss of biological diversity

- The development of Englishman's Bay, Tobago



Tourism and climate change

In the UK, 2007
contribution of air traffic
to carbon emissions =
10–19%

By 2050
contribution of air traffic
to carbon emissions =
27–54%

- BRIC effect



Peak oil

- The idea that oil production has reached a peak so that the gap between demand and supply will rise along with prices.



Other issues

Environmental effects of other sectors on the leisure and tourism sector:

- global warming, ozone depletion, acid rain and atmospheric pollution each have impacts on the leisure and tourism sector
- Positive environmental effects of leisure and tourism

Review of key terms

- Environmental economics
 - analysis of human well-being as well as the flow of money in the economy
- Externalities
 - those costs or benefits arising from production or consumption of goods and services which are not reflected in market prices
- Defensive GNP expenditure
 - expenditure that takes place to defend or protect one party from the external effects of the activities of another (e.g. double glazing as a defence from noise pollution)
- ISEW
 - Index of Sustainable Economic Welfare
- Non-renewable resources
 - those which have a fixed supply
- Renewable resources
 - those which are capable of being replenished
- Waste sink
 - Part of the environment where waste products are deposited
- Assimilative capacity
 - Ability of sink to absorb waste

The PESTEL framework (1)



The PESTEL framework categorises environmental influences into six main types:

political,

social,

environmental

economic,

technological,

legal

Thus PESTEL provides a comprehensive list of influences on the possible success or failure of particular strategies.

The PESTEL framework (2)

- ***Political Factors:*** For example, Government policies, taxation changes, foreign trade regulations, political risk in foreign markets, changes in trade blocks (EU).
- ***Economic Factors:*** For example, business cycles, interest rates, personal disposable income, exchange rates, unemployment rates, GDP trends.
- ***Socio-cultural Factors:*** For example, population changes, income distribution, lifestyle changes, consumerism, changes in culture and fashion.

The PESTEL framework (3)

- ***Technological Factors:*** For example, new discoveries and technology developments, ICT innovations, rates of obsolescence, increased spending on R&D.
- ***Environmental ('Green') Factors:*** For example, environmental protection regulations, energy consumption, global warming, waste disposal and recycling.
- ***Legal Factors:*** For example, competition laws, health and safety laws, employment laws, licensing laws, etc

Next week – final lecture

Business Strategy

SWOT analysis

PESTLE recap

On 29 March: Drop ins to review drafts

Hand-in date: Monday 23 April 10am

