

# [Hnd judge how the business and cultural environments](https://assignbuster.com/hnd-judge-how-the-business-and-cultural-environments/)

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HND Business Birmingham Metropolitan College Mathew Boulton Campus Riddle of the day A woman shoots her husband. Then she holds him under water for over 5 minutes. Finally, she hangs him. But 5 minutes later they both go out together and enjoy a wonderful dinner together. How can this be? 3. 3 judge how the business and cultural environments shape the behaviour of a selected organisation This builds to answer; Judge how Lloyds TSB has been behaviour has been affected by political, economic, social, technical, legal, and environmental pressures.

Industrial concentration Over the last 100 years the size of firms has generally been increasing. 50 years ago in the UK most shops were privately owned and supplied the local area, however over time larger shops have become more and more important. Tesco for instance is a huge employer in the UK and now serves millions of customers with an estimated one in every seven pounds spent on retail being spent in Tesco, it has now extended well beyond the UK and is operating in many different companies.

In 2002 Walmart was the biggest earning firm in the world, with an annual revenue of $219 billion. This was a higher figure than the GDP of many countries. As a general rule different industries are dominated by a smaller number or larger firms. This trend is referred to as industrial concentration. How has industrial concentration been achieved? It has happened in a number of different ways, primarily many of the firms have naturally gained in size, e. g. opened more and more stores, or built bigger and bigger factories.

However it has also been achieved through mergers, where firms combine themselves together And By takeover where one firm will buy out another firm Why grow in size? One of the major reasons or advantages of growing in size is to achieve economies of scale. Merger as a method of growth Mergers offer firms a great advantage because over night they can grow substantially, they can become more secure, gain great economies of scale and have greater diversity. Case studyBarclays In 2003 Barclays Bank was looking for a major European Bank to merge with.

It started looking at mergers for three main reasons Barclays had previously been a target for a takeover, by being a larger organisation it is a lot harder to become a target for takeover The bigger it becomes the greater the economies of scale it could gain It allowed Barclay’s access to European markets, far more easily than setting up its own branches abroad. Merging gave Barclays overnight access to a large customer base that was already established, additionally it gave Barclays technical experience of Europe.

What economies of scale do you think Barclays gained from expanding abroad? …………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………. Vertical mergers Vertical mergers are mergers of firms in the same chain of production, for example a brewer merging with a farmer (producing the raw ingredients hops) or a brewer merging with a pub. Both of these are examples of vertical mergers because they are in the same chain of production e. g. eer The brewer merging with the farmer would be a vertical backwards merger, because the brewer is merging with someone at an earlier stage in the production chain. From the farmers point of view merging with the brewer would be a forward vertical merger, because he is merging with someone at a later stage of production. Motives for vertically backward mergers Firms can gain a number of advantages by vertically merging backwards these might include Economies of scale Guaranteed supply Not supplying competitors without knowledge (might mean not supplying any competitors) Motives for vertically forward mergers

Most manufacturers never sell directly to the public, they rely on retailers to do it for them, by merging with a retailer demand for your product is guaranteed. You can stop your competitors products being stocked (or controlling them, e. g. charging a higher price for them Key factors in a merger Both firms must feel they are gaining from it, they must both feel they are gaining more control Horizontal mergers A horizontal is where firms at the same stage of production merge. These firms usually produce the same goods and are usually at least to some extent in direct competition with each other.

Motives for horizontal mergers Greater efficiency, for example getting rid of duplicated management roles Greater use of staff, under-utilised staff might be used at another plant or location Greater control of the market Greater combined buying power, therefore gain economies through bulk buying. Job saving, redundancies almost always follow mergers, and this creates cost savings for the new organisation Eliminate competition; what better way to eliminate a competitor than to merge with them, this helps reduce down competition and mean price competition is reduced. We have seen how governments may oppose this) Increase market share, you will gain new customers, possibly in locations where you didn’t have any before Examples of horizontal mergers P & O and Stena Line merged in November 1997 saving 1000 out of a combined workforce of 5000 Commercial Union and General Accident merged, the merger caused nearly 3000 redundancies Lateral mergers Lateral mergers are where two firms that are at the same stage of production, but where the products do not directly compete. For example a brewery with a soft drinks manufacturer. The products are likely to be sold in the same places, e. . shops, restaurants, pubs etc, but they do not compete directly against each other. They do not lure each other customers away. So a pension company (Scottish Widows) merged with Lloyds TSB, they didn’t compete directly against each other, but they were in a related market. Reasons for lateral mergers Economies of scale can be gained, but one of the major reasons will be to have a wider range of customers in more diverse markets. Both firms will have access to customers they didn’t have before. The new firm only gains in customers from the combined companies E. Lloyds TSB could access customers from Scottish Widows, and Scottish Widows had access to a lot more customers than it had before at Lloyds TSB. Conglomerate mergers This is a merger where the two firms have nothing in common, for example a brewery and a washing machine manufacturer. The two have nothing in common Reasons for conglomerate mergers Some economies of scale can be gained, but mostly it is risk bearing that is the major drive, both firms are more likely to be secure in the new form where they have a combined much wider range of products over possibly a much wider area Case study The merger of Carlton and Granada

In 2003, Carlton and Granada TV companies announced their intention to merge and form a firm worth about ? 4. 1 billion. It was estimated that the new company would control about 50% of the television advertising market. Advertisers and media agencies both expressed their fears over the potential creation of a single airtime sales house if the two existing houses owned by the two companies combined. The Competition Commission decided that an investigation was in order, and they produced a 456 page report into the proposed merger. What are the benefits for the two companies in merging? ………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………….. Why was the Competition Commission so concerned over the merger? ……………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………..

Multinational corporations Perhaps an inevitable consequence of industrial concentration was the multinational corporation. These are firms that have extended beyond their native counties and have become global organisations, that in many cases are worth many billions. Why have they grown? Beyond economies of scale there are other advantages, a firm might be nearer its customers, be able to modify its product and not have to pay import duty. Other advantages can include lower labour costs in other countries Lower production costs

Being closer to raw materials (therefore transport costs are reduced) Growth of multinationals There has been a rapid increase in multinationals from 7000 in 1970 to 40, 000 in 1995. More than half of multinationals come from five counties United States, Japan, Germany, France and the Netherlands By going global many of these firms have been able to expand hugely, some are economically more significant then small countries. Exxon for instance has comparable economic size to Chile BP which is the UK’s largest multinational is placed as being more economically significant than Cuba, or Uruguay

Concerns about multinationals Many people are concerned over multinationals, concerns include Power they have over many governments due to their size Some have been accused of exploiting cheap labour They control many of the planets resources, e. g. gas and oil is largely controlled by a number of multinationals. Financing growth Not only can firms gainmoneyto grow from the traditional routes of borrowing money from banks, they can also gain revenue from rights issues and venture capital. Rights issues

If a firm is expanding it may well look to its existing shareholders to helpfinancethat growth Rights issues allow shareholders to buy new shares in the company in proportion to what they already own, usually at a better price. So if a firm was planning to expand shareholders will be contacted and asked to see if they want new shares in this new venture, shareholders will be offered preferential rates (it is usually seen as a reward for shareholders) The firm gains extra revenue, but with a huge advantage that it doesn’t need to pay the money back (like a bank loan) If a shareholder wants to get their money back they will sell the shares.

Both firm and shareholder can see it as a good option, hence forth it is a popular way to raise revenue. Venture capital Venture capital firms, or individuals will look to see if they can get a good bargain. This is very much want the Dragons on Dragon’s Den aim to do. Venture capital firms will inject money into the firm, but often will gain a significant share of the business as part of the deal. They may well want to have directors positions and may also want some kind of control in the business. This is not always a bad thing for the business, where the new company can gain valuable management help from the venture capital firm.

Venture capital investment can happen at a number of different stages Seed investment; providing at the very earliest stage, possibly before a product has been fully realised Early stage investment; helping a firm in its opening stages, which can quite often be a difficult time for a business Expansion and later stage financing; helping a more mature company to expand Turnaround financing; helping failing firms to regain themselves Joint ventures Joint ventures are very similar to mergers, this will be where two firms form a separate division or new company.

It will be financed and staffed by both companies, it might be used for instance for one firm trying to break into a new market, or a new country. By using a joint venture a company might gain all the experience of another firm, adding to its own advantages. However no upheaval or loss of staff. Outsourcing This is where an individual or another firm carries out some of the operation of the business, for example carries out the cleaning services carried out at the organisation. The firm gains by using outsourcing bySaving moneythat it doesn’t have to spend on training staff There are no recruitment costs

There are no issues with redundancies or sacking of staff because they are employed by another company The firm can start a new service very quickly by using outsourcing By outsourcing it may be easier to get the experts needed. The firm wont have to worry about covering staff absences, the firm doing the contracted outsource work will have to worry about it instead. It can offer a quick and cheaper alternative (because there are no recruitment costs etc) to employing staff at the firm It is very good if the service is only needed in the short term. Technologyand innovation

Research and development is very expensive and doesn’t always work. However if it does work it can offer the firm huge advantages offering a new product or service that wasn’t available before. Because of copyright, many of these products will remain exclusive to the firm. Research and development is effectively another economy of scale, because usually only the large firms can afford it, and can afford it when it goes wrong. It is usually just major corporations that carry out research and development. Top 11 research and development companies 2002 1 Ford 2 General motors Siemens 4 Daimler Chrysler 5 Pfizer 6 IBM 7 Ericsson 8 Motorola 9 Matsushita Electric 10 Cisco 11 GlaxSmithKline Looking at the above firms, what are the main areas that research and development is carried out for? ………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………. Why do you think these areas have a lot of research and development carried out in them? ………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………… Labour market trends A very important consideration for businesses is the state of the labour market. A higher rate of unemployment gives a firm an advantage to pick suitable workers from a wider pool. The bigger the choice the easier it is for them to get the right member of staff, and significantly without increasing wages. As the pool of workers reduces down so it is harder to get the right worker.

On a similar basis the skills of the workforce are also very important, many positions in firms may require significant training. Proportion of managers with qualifications 2003 | All| Men| Women| Degree or equivalent| 48%| 55%| 39%| Highereducation| 38%| 44%| 33%| A – level equivalent| 23%| 25%| 18%| GCSE or equivalent A - C| 17%| 22%| 13%| Looking at the above figures what doe it suggest is the trend between managerial position and qualification …………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………

Generally the UK government realises the need of UK business for a more skilled workforce. This was behind the labour parties policy of encouraging higher education amongst the population and encouraging modern apprenticeships. However this has still not been enough. Many firms have looked outside of the UK for skilled workers at a lower cost. Additionally with the growth of communications technology it is easier for firms to employ members of staff in other countries. PEST of Lloyds TSB Lloyds Banking Group plc is a financial services group based in UK.

It was initially known as Lloyds TSB Group plc and covers 40 countries in the world. However, its primary market is UK and it operates in three verticals namely, retail banking, wholesale and international banking and insurance and investments. The Lloyds Banking Group plc acquired the Halifax Bank of Scotland plc or the HBOS on January 16th this year (Company Profile par. 1) The subprime crisis which started in the US had its effect on those countries whose financial companies were participating in the US based risky financial instruments.

UK was one of those countries and approximately around November 2007 the banking sector saw the unfurling of a major crisis (Caine). $323 billion was the amount of total assets write-down and credit loss in the world’s top 100 banks till May 2008. Amongst these, UK banks were also present; HBOS had a loss of $5. 9 billion while RBS or Royal bank of Scotland lost $15. 2 billion (Onaran). Due to the subprime and credit crisis towards the end of 2008 UK went into recession and since then the crisis has deepened. This is evident from the fact that the UGK GDP has declined further by 1. % in the period between January- March 2009. This has also been the sharpest decline since 1979. It is being predicted that the fall in GDP would be even more than 3. 5%, which was the common estimation among experts last year. The IMF has also predicted that the UK economy would decline by 4. 1% in 2009 (Monaghan par. 1, 3, 5, 13). But in comparison to other EU members the UK economy is in a slightly better condition. Yet public finances will be in a very bad condition in comparison to its EU member states. Also, the country’s government deficit is predicted to be amongst the worst in EU for the next year (Giles, par. , 2, 10). Macro economic forecasts by different agencies have also predicted a depressing picture for the economy in the near future. GDP growth is predicted to be less than 0. 5% in 2010 while the Retail Price Index inflation is going to be between 2% to 2. 5%. Consumer Price Index inflation on the other hand is predicted to be at 1. 5%. Current account for 2010 would be at least -? 26 billion by April (Forecasts for the UK economy 12-13). http://mb atermpapers. om/an-analysis-of-lloyds-tsbs-current-strategic-position-part-i/ PESTEL Analysis of the Banking Crisis and Royal Bank of Scotland POLITICAL There are numerous entities comprising RBS’s political arena, including but not limited to: The Bank of England (BOE), BOE’s Monetary Policy Committee, Chancellor of the Exchequer, Financial Services Authority (FSA), HM Treasury, HM Treasury’s UK Debt Management Office, UK Financial Services and Markets Tribunal (which provides judicial review of the FSA), and Treasury Select Committee (which reviews HM Treasury’s activities).

Each entity influences RBS’s ability to compete in a highly regulated sector. Each entity’s influence originates from their ability to sway and/or enact legislative acts which envelope RBS’s investment activities, reporting procedures, costs of capital, international participation and horizontal and/or vertical integration. The overall political mood of these government entities during the current banking crisis inculcates numerous feelings and perspectives, including but not limited to such attitudes as  i). angst about available credit to businesses and consumers; ii). repidation towards watchdog groups like rating agencies and government inspectors; and iii). worry concerning free market capitalism and the nationalization of key industrial sectors. Immersed in such a political atmosphere, RBS’s expectations include augmented publicly scrutiny regarding loan portfolios and lending activities, even greater banking regulation, increased governmental activities such as inspection parameters and enhanced reporting requirements. RBS’s political arena is struggling to recompense constituents for the government’s inability to stave off volatility despite huge expenditures of taxpayer dollars.

RBS will identify trend lines in each governmental entity in order to position each entity into a governmental landscape attempting to redefine itself as a public body capable of ascertaining significant risks to the economy. By analyzing the decisions of entities like the BOE, FSA, UK Financial Services and Markets Tribunal, and Treasury Select Committee – RSB may fully assess the country’s political framework, the direction being taken by the government on a per entity basis and the ramifications upon the socio-economic canvas.

One political activity is the HM Treasury’s establishment of the Bank Recapitalization Fund and the UK Debt Management Office’s 2008 Credit Guarantee Scheme. These programs are part of the Government’s attempt to stabilize the financial system and to protect and promote confidence in depositors, borrowers and other clients of RBS and other financial institutions. Under these programs the government will possess the capacity to set RBS’s dividend policies and bonus schemes. It will also require RBS to support lending to small businesses and home owners. Moreover, in October 2008 the HM Treasury purchased approximately ? billion in RBS preference shares[1], for which RBS will have to pay approximately ? 600m per annum. The government also underwrote a ? 15 billion share issue for Royal Bank of Scotland – as a result of which the government gained a 58 percent stake in the company. The performance of RBS’s Corporate and Global Banking divisions – in an atmosphere inundated with public and private institutions who failed to ascertain an accurate picture of the credit markets and banking industry – may be expected to benefit from funds made available from HM Treasury’s programs.

Regarding the FSA, it has been perceived by some to be relatively weak and ineffective. FSA behavior is often criticized as being reactive rather than proactive. Some banking experts assert the FSA has allowed irresponsible banking and the FSA’s ineptitude may have precipitated the credit crunch. Indeed, the public acquisition of Northern Rock in mid-February 2008, and the takeover of HBOS by Lloyds TSB are key indicators that the FSA may have failed to oversee with insight and expertise.

Once recent activity is that in September 2008, the FSA announced a ban on short selling to reduce volatility in difficult markets, including financial institutions. Another recent activity is the FSA’s Consultation paper entitled ‘ Financial Services Compensation Scheme reform’. Published in January 2009, the paper recommends that a potential seven-day time limit, after the collapse of their account providers, for paying out to depositors could be imposed on the Financial Services Compensation Service (FSCS) in future.

FSA also recommended a simplification for the eligibility parameters for depositors and for the processes of account providers transferring their customers’ information on the FSCS. ECONOMIC: The economic state of the nation will propel RBS towards activities based on reduced GNP growth, reduced demand for credit, decreases in consumer confidence and reductions in revenue sourced from interest rate spreads. However, clients in RBS’s Wealth Management division may realize long term gains if the market is currently near the bottom and grows in the future.

With historical lows in interest rates and a monetary policy flooding the banking sector, RBS may capitalize upon low costs of capital and potential increases in the demand for credit. However, due to the economic climate, RBS is expected to be substantially risk averse and may avoid the tried and true real estate market. Large and small businesses seeking working capital, companies seeking merger financing and product development financing are potential opportunities for RBS given the current real estate climate.

RBS’s may be expected formulate strategic merger opportunities, gravitate towards a greater risk averse position, raise capital through selling assets and increase the quality of its capital base. RBS may sell assets like its 10% stake in Bank of China[2]. The RBS has also placed t its near-1, 000 pub estate up for sale, as it looks to improve its balance sheet with cash holdings[3]. RBS is also poised to cut around 3, 000 jobs from its Global Markets investment banking division. 4] Moreover, RBS will compete in an economic climate experiencing increases in unemployment. The company’s layoffs are indicative of the financial sector reducing payrolls in order to streamline operations and enhance profitability. However, the economy’s overall increases in unemployment may facilitate a corresponding increase in small business start ups such that RBS may make loans to unemployed workers attempting to start their own firms.

Per the aforementioned real estate situation, housing prices experienced a plunge of approximately 16 per cent last year, the biggest annual drop on record and RBS is poised for another turbulent year in real estate investment activities. The fall during 2008 established a current average house price at ? 153, 048,  down ? 20, 000 since December 2007[5]. However, in a discounted real estate market, RBS may facilitate real estate investors seeking long term gains and may also conduct businesses unrelated to real estate i. e. manufacturing, technological, agricultural, andhealthcare.

SOCIAL Social aspects of the credit crisis include, but are not limited to: careerattitudes, consumer confidence, and worries regarding pensions. Career attitudes may be improved if RBS campaigns for unemployed workers to attempt to start their own small business. Consumer confidence may increase if RBS markets the low costs of capital for borrowers. And worries regarding pensions may be alleviated by RBS’s Wealth Management division and subsequent campaigns emphasizing investments in staple sectors, emerging markets and firms experience above average growth.

TECHNOLOGICAL The aforementioned FSA’s Consultation paper entitled ‘ Financial Services Compensation Scheme reform’ also recommends Britain’s banks spend approximately ? 1bn on upgrades for information technology systems. The proposed IT investment facilitates a bank’s capacity to produce a list of all customers’ deposits within 48 hours of the institution failing. This may support the FSCS’s ability to ensure that bank customers get their money back within seven days.

Such a system may also limit the risk of a collapse of confidence from spreading. Furthermore, technological variables like software platforms based on data mining, neural networks, risk analysis and algorithms scanning financial criteria may offer RBS the tools necessary to optimize networks, maximize knowledge procurement and minimize data absence such that assets, liabilities, expenses and revenue streams are analyzed, assessed and reported upon in order to alert management on significant changes and/or potential problems. LEGAL

RBS confronts numerous legal issues, including but not limited to: securities law, bank note regulation, separation of lawful matters centered on England and Scotland, country specific regulatory committees and a trade structures negotiated separate from England. RBS is poised to capitalize on the Scottish reputation for developing a wealthy nation such that, the concomitance of national legal frameworks may expedite innovation, facilitate the discovery of economic tools and promote a banking sector that leads the international economy into a more efficient, less volatile and improved transparency framework.

By immersing itself in the legal framework of both regions, RBS may reap insight into the legislation the behind domestic economy and participation in an international marketplace. ENVIROMENTAL Several groups assert that RBS is one of the world’s top financing sources for oil and gas extraction. Allegations that RBS is funding oil and gas extraction in politically and environmentally sensitive regions and further entrenching dependence on oil and gas. These believes have resulted in campaigns against RBS  Protests have taken place at some RBS and Natwest branches in the UK.

RBS supplies financial services to firms constructing coal-fired power stations and developing new coal mines at sites all over the world. RBS is accused of helping billions of pounds over the last two years to E. ON, and other companies emphasizing coal. On 17 January 2008 environmental groups wrote to RBS hoping to resolve environmental problems associated with the ABN AMRO-financed Sakhalin II project (RBS, Fortis and Banco Santander acquired ABN AMRO in 2007).

RBS’S green holdings may alleviate these antagonistic positions while also offering investment returns in industries experiencing relatively positive growth rates. As alternative energy becomes a viable source for transportation and electricity, RBS may identify and locate potential businesses (whether small businesses or conglomerates) that offer above average yields. Further, RBS may spearhead the banking industry’s emphasis on alternative energy in a marketplace poised to replace oil even during a banking crisis.

Industrial Analysis: Current Market Forces in Banking Sector There are several forces operating in the banking sector. A few of these are related to the current crisis and others are constant parts of the banking sector. Such forces include, but are not limited to: i). a demand for reform; ii). a supply of private money (whether publicly financed or not) that has experienced a constraining shift in riskadversity; iii). a nationalization of private sectors; iv). uncertain alterations of capital standards; v). ossible shifts in portfolio risks; vi). homeowner and depositor protection; and vii). possible prioritization of small and medium sized business. These demand and supply issues are drivers of change. Other drivers of change include regulatory bodies, private organizations and competitors within the banking industry. As alterations in portfolio risks shift capital, changes in specific industries may occur. For example, an influx of capital into alternative energy alongside a reduction in real estate investment may fuel energy independence.

As alterations in capital standards occur, banking companies are expected to change attitudes towards riskier loans. And as small and medium sized enterprises become a priority, the may be changes in the rate of innovation, the effect of small transactions and general economic data like unemployment or personal consumption. A banking sector’s industrial analysis would note that banking has existed so long that ascertaining the whole sector’s position in the life cycle is rather difficult.

However, the sector is experiencing a nationalization, which in turn reverts back to antiquated stages of the sector’s life cycle. On the other hand, banking could be poised to accelerate its position in its life cycle due to the current economic crisis i. e. necessity is the mother of invention and the banking sector may invent methods to draw the economy out of the current crisis MADEAN2. WORDPRESS; http://madean2. wordpress. com/business/swot-pestel/ (2012) http://www. youtube. com/watch? v= 1cV-R26kMrU&feature= related