

Session 1

The tourism and hospitality business environment

Explanation of key terms

Business environment is a broad area and is comprised of the internal environments and external environments in which business organisations operate. It deals with the issues, forces, factors and influences that companies face in their daily operational activities and business strategies.

External/macro environment: Factors external to the business that influence its operation and actions. This includes such things such as economic conditions, consumer behaviour and technological developments. These are the major uncontrollable, external forces which influence a firm's decision making and have an impact upon its performance.

An **economy** is a system of production, exchange, distribution, and consumption of goods and services. It may be defined in terms of a country or area.

Consumer behaviour may be defined as the process people engage in when searching for, selecting, purchasing, using, evaluating, and disposing of products and services.

Technological development is the process of research and development of new technologies.

Background information

The external environment is the context in which a business operates. This environment can be defined by various aspects and these factors are generally all outside of an organisation's control. For example, a hospitality organisation does not set the laws or standards, but yet hotels in London will be affected if the UK government imposes stricter visa conditions that may stifle the flow of foreign visitors in to the capital. Another good example is how bars and pubs have seen their profits decline in recent times, many have attributed these falling profits to the fact that the UK government imposed a smoking ban in all public places.

Each external factor will have an effect on business, but this does not necessarily have to be negative. Aspects of the external environment may effect some travel and hospitality organisations in a positive way. In recent weeks because of the declining economic conditions in the UK, there is evidence to suggest that fast-food outlets are benefiting from this fall in consumer confidence. Now it appears that people in a bid to save money would rather have a cheap take away than eat out at an expensive restaurant. In consequence the traditional fish and chip shop is enjoying a new period of increased sales.

In the same vein, UK customers seem to be cutting back on holidays abroad. This is in part due to the fact that the UK currency has become much weaker and exchange rates are less favourable. This ultimately means that UK holidaymakers wanting to travel to Europe now get less euro's for each pound which makes travelling much less affordable. However, as the economic times change, some companies are benefiting as holidays in the UK are becoming increasingly more popular as a result.

As you can see these external factors will affect an organisation's sales figures and profitability. However, companies have little control over these factors. Companies must therefore make plans and strategies to try to anticipate these effects. If a company does not plan for external environmental changes or ignores them, then it may miss opportunities to grow or loose business to a competitor.

Class activity

In teams consider five different factors that could shape an organisation's external environment.

.....

.....

.....

.....

.....

.....

Discuss in groups which factors in the external environment you would have to consider if you were a restaurant manager thinking about recruiting more staff.

.....

.....

.....

.....

.....

.....

Now discuss which factors of the external environment you would have to consider if you owned a budget airline hoping to introduce new routes to airports in North Africa.

.....

.....

.....

.....

.....

.....

Session 1 lecture slides

Learning outcomes for this session

At the end of this session you will be able to:

- Define the term business environment in relation to the tourism and hospitality sectors
- Describe the external environment
- Understand how the business environment is unique to each organisation
- Recognise that human processes influence our understanding of the business environment



Introduction to the Business Environment

The Tourism and Hospitality
Business Environment
- Session 1



Learning Objectives

At the end of this session students will be able to:

- Define the term business environment in relation to the tourism and hospitality sectors
- Describe the external environment
- Understand how the business environment is unique to each organisation
- Recognise that human processes influence our understanding of the business environment



Environmental Forces

- No organisation exists in a vacuum
- Likely to have competitors, restrictions placed on it by local, national and international government and be affected by fluctuations in the economy
- By the nature of the type of businesses that can be classified as being 'tourism' and 'hospitality' focused, the environmental forces will be broad



Defining the Business Environment

- Wilson (1992) suggests that the business environment may be viewed as:
- 'an objective fact, a clear measurable and definable reality'
- 'a subjective fact, its particular characteristics being dependent on individuals' interpretation and perceptions'
- 'enacted, where the division between organisation and environment is not clear and where the environment is created and defined by individuals'

© OTHM Ltd

Cert2



Analysing the Business Environment

The business environment needs to be analysed because:

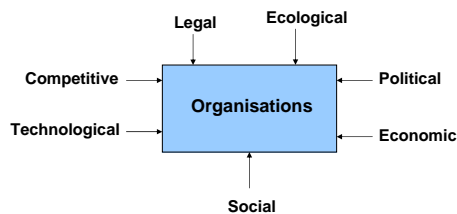
- Its nature fundamentally influences the activities of business – it affects its markets, its technologies and its workforce;
- Operational activities, like new product launches, staff recruitment drives and manufacturing technology reviews need to recognise environmental factors and changes in order to better ensure success of the venture
- Profit and organisational well-being will be related to environmental conditions
- Planning needs to consider likely changes in the environment

© OTHM Ltd

Cert2



A Classification of Environmental Forces



© OTHM Ltd

Cert2



Other Classifications of Environmental Forces

- PEST enables a logical and comprehensive picture of the environment to be produced
- Peace and Robinson (1994) separate a firm's external environment into three categories:
 - The **remote environment** – global and domestic political, social and technological concerns
 - The **industrial environment** (competitive forces)
 - The **operating environment** includes suppliers and customers

© OTHM Ltd

Cert2



The 'Dartboard' Model

Daft 1992

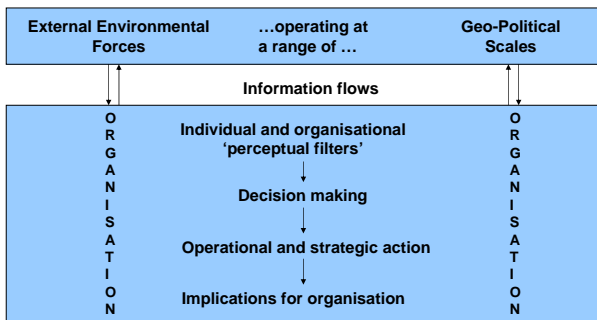


© OTHM Ltd

Cert2



Model of the Business Environment



© OTHM Ltd

Cert2



Influences on Individual and Organisational Perception

- Characteristics of individuals, such as background, education and duration of employment within the organisation
- Organisational culture
- Organisational politics, structures and control mechanisms
- History and development of an organisation
- T, T, H sectors and their norms
