



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

Marko Janković¹
*Faculty of Business Economics and
Entrepreneurship, Belgrade, Serbia*

ORIGINAL SCIENTIFIC ARTICLE
doi:10.5937/ekonomika1604031J
Received: October 21, 2016
Accepted: November 18, 2016

Milan Mihajlović²
*University Union Nikola Tesla, Belgrade,
Faculty of Business and Industrial Management, Belgrade, Serbia*

Tamara Cvetković³

INFLUENCE OF EXTERNAL FACTORS ON BUSINESS OF COMPANIES IN SERBIA

Abstract

Business environments can be internal and external. In this paper you will see how external business environments affect business enterprises. They can affect business results positively or negatively. Empirical research was conducted on 60 companies in Serbia. The results show that the external environment is not influencing their businesses favorably. The most negative factors are political. In order to eliminate the negative impact of these factors, it is necessary for the government to take certain measures.

Key words: Business environment, Company, External factors

JEL classification: B21, L20, M21

УТИЦАЈ ЕКСТЕРНИХ ФАКТОРА НА ПОСЛОВАЊЕ КОМПАНИЈА У СРБИЈИ

Апстракт

Пословно окружење може бити интерно и екстерно. У раду се указује како екстерно пословно окружење утиче на пословање предузећа. Они могу да делује позитивно или негативно на пословне резултате компаније. Сprovedено је емпиријско истраживање на 60 компанија у Србији. Резултати показују да екстерно окружење не делује повољно на њихово пословање у Србији. Најнегативније утичу фактори из групе политичког окружења. У циљу отклањања негативног утицаја ових фактора потребно је предузети мање одређених мера од стране владе.

Кључне речи: Пословно окружење, Компанија, Екстерни фактори

¹ marko-jankovic@outlook.com

² mihajlovicmilan89@gmail.com

³ rubi.bg@gmail.com

Introduction

Every organization has its own internal and external environment. Understanding the external environment is very important for a successful business. External factors affect almost every aspect of business, whether it is the location of the market, product price, product distribution etc.

The subject is to determine the impact of external factors on the management of the company. The main goal is to present the external factors that have the most negative influence on the operations of companies in the Republic of Serbia.

The paper consists of 2 parts. The first part defines the concept of the business environment. The terms internal and external environment are described in it. In addition, the factors of the internal and external business environment are shown. The second part presents the results of empirical research. The survey tested 60 companies. The survey contains key external environmental factors that may impact the organizations management. The results indicate that factors from the political and legal environments have a negative impact on the operations of the company.

Hypothesis 1: Many external environmental factors affect the business of companies in Serbia, the most important of which are from the political and legal environment.

Hypothesis 2: Companies in Serbia do not hold to a detailed assessment of operating costs in high regard, so factors of the economic environment are ignored.

Business environment

All companies have internal and external environment. The internal environment is associated with human resource management and business organization. To some extent, the internal environment can be controlled and changed through the planning and management of business processes. Internal environment factors are human resources, organizational culture, organizational structure and management. (Đuričić, 2013)

Knowledge, experience and workforce capabilities are a decisive factor for a company's success. This is why a great deal of attention is directed toward the recruitment of qualified workforce and staff training in particular. Achieving these goals is often limited by financial resources. However, staff training is an essential aspect of good business management. Keeping that In mind, this goal should be achieved even in a difficult financial situation. (Obradović, Fedajev, & Nikolić, 2012)

The success of any company depends on the ability to adapt to the environment in which it operates. For example, when the government changes its policies, the organization should adopt such changes. Similarly, changes in technology can make existing products outdated, such as computers succeeding typewriters or color TV's succeeding black and white TV. Also, fashion changes may affect the distortion in the market of a particular product. For example, the demand for denim clothing has influenced the decrease in demand for traditional clothing. All these cases represent external factors which cannot be controlled by the company. Therefore, if the company wants to continue its business, it must adapt to changes. (Wong & Mohd, 2013)

The term external business environment refers to an aggregate environment that may have a direct or indirect impact on the performance of companies. It can also be defined as a set of external factors, such as economic, social, political and legal factors, demographic factors and technical factors, which cannot be controlled and which affect the efficiency of the company. (Isiac, 2014)

The survival and success of any company depends on its economic environment. The main factors affecting the economic environment are economic politics, economic situation and factors such as energy prices, transport costs, the price of telecommunications services, quality standards, the influence of the banking sector etc. (Živanović, 2014)

The economic situation of the nation refers to a set of economic factors that have a major impact on the operations of the company. This includes the gross domestic product, the market of goods and services, foreign exchange reserves, the growth of foreign trade, the availability of capital, the power of capital markets etc. The economic situation of the nation has an impact on patterns of consumer spending. An increase in interest rates and / or high levels of unemployment will reduce consumption of non-essential goods and services. For example, if people experience financial difficulty, they will spend less money on sports and recreation, vacations, new cars and luxury goods. (Semolic, 2007)

Social environment includes social factors such as customs, traditions, values, beliefs, literacy, life expectancy etc. Social structure and the values that a society cherishes has a significant impact on the company's functioning. (Kennerley & Neely, 2013)

For example, before “Microsoft” bought “Nokia”, Nokia had mainly been operating in the Western market. It was important to fully understand social factors in this market, as well as to constantly improve technology. The growing trend towards smart phones has led to people only buying these phones, and the demand for standard phones falling significantly. Nokia's task was to recognize such a set of circumstances. However, the company management decided to take it another step forward and develop the next generation of smart phones. Due to the slow progress of such enterprise, Nokia has lost competitive advantage, product sales, and financial power. This has led to the purchase of Nokia by Microsoft, and termination of this brand. (Hueske, Endrikat, & Guenther, 2015)

The political environment includes the political system, government policy, the attitude towards the business community, trade unions etc. All these aspects have an impact on the design of corporates strategy. The stability of the government will also send a signal of strength and confidence to potential investors. Political factors affecting the business are important. All companies must obey the law, and managers need to recognize how upcoming laws will affect business. (Yunusa, Bustamanb, Wan, & Wan, 2014)

Technological environment includes methods, techniques and approaches adopted for production of products and services and their distribution. Technology is a key factor in economic development. Due to the advancement of international communication, the growing economic interdependence of countries, as well as serious shortages of vital natural resources, transfer of technology has become a major preoccupation of developed and less developed countries. (Unknown, 2015) Huge changes in the technological environment have occurred over the past 30 years, mostly in sections such as the chemical, pharmaceutical and electronics industry. It is very important for companies

to keep up to date with these changes, not only because it will enable innovative new products, but will also give them a competitive advantage. (Yoo, Sawyerr, & Tan, 2015)

The legal environment is derived from the political situation in the country and has three dimensions: the laws in the country, the laws of the foreign market and international laws. The basis of all commercial activity is a contract. The purpose of the contract is to determine rights and obligations of the parties. In this way, the possibility of conflicts between parties is reduced. In the context of international business, which brings a number of risks and complexity, the contracts assume a key role in, for example, booking forwarding companies, shipping lines, airlines etc. (WTO, 2015)

There are many demographic factors affecting business such as income, age structure, geographical area, changes in the size and structure of population etc. These factors can be presented as a range of properties that are used to determine consumer preferences. Many companies identify their key customers through the analysis of these traits. Then they target consumers with similar characteristics through advertising and promotions. Targeted consumers with similar demographic characteristics help the company increase its sales and profit. (Peterson, Rhoads, & Vaught, 2001)

Case study - impact of external factors on business of companies in the Republic of Serbia

Table 1. Importance of external environmental factors on company's operations in the Republic of Serbia

<i>Rang</i>	<i>Factors name</i>	<i>Avarage rating</i>	<i>Max. rating</i>	<i>Min. rating</i>
1	High tax rates	4.32	2	5
2	Problems with the collection of receivables	4.21	1	5
3	High levels of corruption	4.16	2	5
4	Finding appropriate business partners	3.95	1	5
5	Fluctuation of exchange rate	3.74	1	5
6	Political instability in the domestic market	3.63	1	5
7	Lack of incentives for local authorities	3.62	1	5
8	Lack of adequate infrastructure	3.53	1	5
9	Inadequate legislation	3.42	1	5
10	Inadequate workforce on market	3.40	1	5
11	The efficiency of the judiciary	3.37	1	5
12	Complicated export procedures	3.27	1	5
13	Implementation of legislation	3.25	1	5
14	Energy price	2.24	1	5
15	Lack of information on foreign markets	3.16	1	5

16	Inadequate bank support	3.14	1	5
17	Failure to fulfill contractual obligations	3.05	1	5
18	Tariff barriers	2.89	1	5
19	The fulfillment of the necessary quality standards	2.85	1	5
20	The high level of prices of telecommunication services	2.79	1	5
21	Lack of raw materials	2.68	1	5
22	Difficulties in the purchase / lease of business premises	2.62	1	5
23	High transport costs	2.21	1	5

In this section, the analyzed and presented results of an impact assessment of external environmental factors on the operations of companies with 5 to 30 employees will be shown. Firstly, they identified key external environmental factors that may impact the business of an organization. A sample of 60 companies was analyzed on the territory of Serbia.

The research results are presented in tables. In Table 1 results are shown and ranked by the influence of external environmental factors that may affect the business. The factors are ranked according to the average rating of answers. A minimum and maximum rating is given in addition to the average rating for each factor according to the responses given. External environmental factors were evaluated by the impact from 1 to 5 (1 - least affecting, 5 - most affecting).

The resulting ranking list points to the major problems faced by companies in Serbia. If you look at the results shown in Table 1, you can come to a conclusion that the tax rates, the issue of debt collection and high levels of corruption are the most important external environmental factors that affect the business of the companies. Based on ranking factors listed in Table 1, it can be concluded that the first 10 ranked factors are typical for political and legal environments, which was one of the six external factors considered in the business environment, and thus confirming the hypothesis 1.

To the contrary, the least significant external environmental factors that may affect the operations are the fulfillment of the necessary quality standards, high prices of telecommunication services, lack of raw materials, difficulties in purchase / lease of business premises and high transport costs, which are specific for the economic environment, which was also subject to external environmental factors considered, and thus confirming the second hypothesis.

Conclusion

The term external business environment involves external forces, factors and institutions that are operating beyond companies' control, which affects the functioning of the organization. Changes in the external business environment are unpredictable, vary from city to city, region to region and from country to country. Analysis of the

environment can significantly facilitate the work of managers in dealing with business challenges.

There is a close interaction between the organization and its environment. This interaction helps the company's development, growth and efficient use of resources. As already mentioned the external business environment is complex and dynamic by nature and has a long lasting impact on the survival and development of business. A proper understanding of the social, political, economic, legal, demographic and technological environment helps companies identify opportunities and threats, focus on growth and continuous learning, achieve competitiveness and identify strengths and weaknesses.

Based on the conducted tests, the importance of external environmental factors can be seen. The research results can provide important information about the impact of external factors on the business of companies in the Republic of Serbia, based on empirical results, to managers of companies and potential investors.

The results of this research should be interpreted with caution, due to certain limitations. The main source of limitations is in the survey itself, which covers only the most important external environmental factors. Surveys were completed by one person, which is, in most cases, the owner of the company. Other than that, the survey is also affected by the fact that the respondents cannot be impartial, as well as the competence of the interpretation of the environmental factors. In addition, a relatively small sample of 60 companies that participated in the survey had been used, mainly those that operate in the township of Niš.

This work may be subject to further examination, which may include medium and large companies that would set up a hypothesis confirmed on a larger sample.

References

- Unknown (2015). Millennium Development Goals, Targets and indicators. Downloaded from International Telecommunication Union: <http://www.itu.int/en/ITU-D/Statistics/Pages/intlcoop/mdg/default.aspx>*
- Đuričić, M. (2013). *Management*. Belgrade: Faculty for business and industrial management.
- Hueske, A.-K., Endrikat, J., & Guenther, E. (2015). External environment, the innovating organization, and its individuals: A multilevel model for identifying innovation barriers accounting for social uncertainties. *Journal of Engineering and Technology Management*.
- Isiac, L. (2014). *Environmental Factors in Strategic Planning*. (<http://www.leoisaac.com/planning/strat016.htm>, Editor) Retrieved April 25, 2016, from Leoisaac: <http://www.leoisaac.com/planning/strat016.htm>.
- Kennerley, M., & Neely, A. (2013). Measuring performance in a changing business environment. *International Journal of Operations & Production Management*.
- Obradović, S., Fedajev, A., & Nikolić, Đ. (2012). Analysis of business environment using the multy criteria approach - case of Balcan's transition economies. *Serbian Journal of Management*.

- Peterson, D., Rhoads, A., & Vaught, B. (2001). Ethical Beliefs of Business Professionals: A Study of Gender, Age and External Factors. *Journal of Business Ethics* .
- Semolic, B. (2007). In search for innovative business model or how to be successful in nowadays business environment. *International Federation for Information Processing* .
- Wong, W. P., & Mohd, A. (2013). The impact of external environmental on business process management and organizational performance. *Verlag Berlin Heidelberg* .
- WTO. (2015). Business, trade and the WTO. Preuzeto sa World trade organization: https://www.wto.org/english/forums_e/business_e/business_e.htm
- Yoo, S.-J., Sawyerr, O., & Tan, W.-L. (2015). The impact of exogenous and endogenous factors on external knowledge sourcing for innovation: The dual effects of the external environment. *Journal of High Technology Management Research* .
- Yunusa, O. M., Bustamanb, H. A., Wan, A. F., & Wan, M. R. (2014). Conducive Business Environment: Local Government Innovative Work Behavior. *ScienceDirect* .
- Živanović, N. (2014). *Strategic management*. Belgrade: Faculty for business and industrial management.