

Good Governance and Social Responsibility

Lecture 3: Organizations: Their Political, Structural and Economic Environment

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Lecture Learning Objectives:

At the end of the lecture, you will be able to:

1. Understand and explain organizational theory, structure, design, centralization/decentralization and levels
2. Discuss the implications of government regulation
3. Enumerate the advantages and disadvantages of a government planned economic activity
4. Enumerate and discuss the legal and administrative barriers to entrepreneurship
5. Differentiate income distribution and wealth distribution as well as discuss the different causes of economic inequality
6. Identify the different political dimensions relating to business

“One of the greatest delusions in the world is the hope that the evils in this world are to be cured by legislation.”

-Thomas B. Reed (1886)

Understanding The Organizational Environment

To understand the internal and external organizational environment, it is important to cover first organizational theory, organizational structure, centralization & decentralization, levels of the organization, Mintzberg's nine design parameters, and formal relationships.

Organizations are complex adaptive systems that use people, tasks, and technologies to achieve specified goals and objectives. Structuring the organization represents the division and distribution of work among members of the organization, and the coordination of their activities in such a way that they are directed towards achieving the declared goals and objectives of the organization. **Management** is about how the organization manages the structure, the resources, and the activities within the organization and how it measures and monitors the resulting performance towards achieving the declared goals and objectives of the organization.

Organizational theory attempts to explain how organizations work by defining the common features that organizations share, by collecting data and by analyzing them, assessing “what works where - and why!”. It is important to understand that structure and management of organizations will differ depending on the following: the sector they operate in (public, private, non-profit), the stakeholder configuration, the particular strategic goals and objectives they set themselves. There is therefore no one recipe that will work across all organizations, the structure will reflect the DNA of organizations which translates to “the way we do things around here” and other factors particular to any one organization.

Organizational Theory

Organizational Theory is especially useful for people who manage organizations, or who aspire to do so in the future. But whether or not you are a manager, for example, if you work in public health, you will be working with organizations (like hospitals, charities, local, and national government etc.) so you need to understand them. It enables the manager to see that his or her organization and its problems are rarely wholly unique. Usually, much of value can be learned from examining the behavior of other organizations in broadly similar circumstances. It can help us to explain what is happening in our own organization and to identify possible solutions to its challenges, issues, and problems, provided the solutions selected to take into account cultural and other key aspects and the not simply “broad brush) or replica implementations based on what is done elsewhere.

Organizations, especially large organizations, are generally complex, having many interrelated facets and areas that need to be coordinated, managed together to achieve efficiency and effectiveness in achieving stated goals and objectives. Organizations also need to be adaptive; they need to respond to ongoing changes in the environment in which they operate (i.e. the political, social, economic, and technological conditions) that together form the environment in which organizations operate.

Even if you do not aspire to be a manager, organizational theory should be of interest to you for it's around us. **Organizational theory** can help explain how they work and why they work in the ways they do.

Drucker suggests **three criteria for effective organizations:**

- a. They must be organized for business performance
- b. Their structure should contain the least number of management levels.
- c. Organizational structure should facilitate training and testing of future organization leaders.

Organizational Structure

- It is the pattern of relationships among positions in the organization and among members of the organization. The purpose of the structure is the division of work among members of the organization, and the coordination of their activities so that they are directed towards achieving the same goals and objectives of the organization. **Structure** defines tasks and responsibilities, work roles and relationships and channels of communication.

Objectives of an Organizational Structure

- Accountability for areas of work undertaken by groups and individual members of the organization
- Coordination of different parts of the organization and different areas of work

- Effective and efficient organizational performance including resource utilization
- Monitoring the activities of the organization
- Flexibility in order to respond to changing environmental factors
- The social satisfaction of members of the organization

Dimensions of Organizational Structure

Child (1988) Suggests **six major dimensions as components of an organization structure**

- Allocation of Individual tasks and responsibilities, job specialization and definition
- Formal reporting relationships, levels of authority and spans of control
- Grouping together of sections, departments, divisions and larger units
- Systems for communication of information, integration of effort and participation
- Delegation of authority and procedures for monitoring and evaluating the action
- Motivation of employees through systems for performance appraisal

Consequences of structural deficiencies (Child) :

- Low motivation and morale
- Late and inappropriate decisions
- Conflict and lack of coordination
- Poor response to new opportunities and external change
- Rising costs - e.g. diseconomies of scale

Principles of Organizational Design & Diagnosis

Mintzberg suggests that organizational structures fall into **five basic categories**:

- **Simple structure** - a centralized, perhaps autocratic arrangement typical of the entrepreneur-founded company. A little hierarchy of control exercised by the chief executive.
- **Machine bureaucracy** - best at mass produced tasks and is characterized by many layers of management and formal procedures.
- **Professional bureaucracy** - likely to include some parts of the administration is set by independent professional bodies. It tends to be more democratic and more highly motivated, with its lines of authority less clearly set.
- **Divisionalized form of bureaucracy** - applies more to multinational or industrial corporations where a small central core controls key guidelines for a number of otherwise autonomous units.
- **Adhocracy** - often found in new technology industries, which need constantly to innovate and respond to quickly changing markets.

Types of Organizational Structure

This is essentially the process by which the organization's mission is divided into

discrete roles and tasks of individuals within the organization. There are different ways of doing this. All essentially act initially by grouping key activities in the organization and then allocating roles/tasks to individuals. These can fall into the following categories.

1. Functional
2. Product/service
3. Geographical
4. Divisional
5. Matrix

Functional - grouping of major functions e.g. contracting, information, finance, personnel, and public health in health authorities.

Advantages

- Increases utilization and coordination of groups of people with technical/specialized expertise
- Increases development and career opportunities for people in departments

Disadvantages

- Encourages sectional interests and conflicts
- Difficult for organization to adapt to product/service diversification

Product/Service – a grouping by service/product. For example, in a hospital, into orthopedic, surgical, psychiatric rather than medical, nursing, paramedical, hotel services (functional).

Advantages

- Increases diversification
- Adaptability increased if service/product requires technical knowledge or large equipment

Disadvantage

- Encourages service conflicts

Geographical - a nationalized service develops regions, areas, or district authorities

Advantage

- More responsive to local/regional issues and different cultures, national/local laws.

Disadvantages

- Can lead to localities/regions conflicting with each other

Divisional - grouping of services and/or geography and functionality (but with functions such as finance, personnel, planning retained at headquarters).

Advantages

- Suitable for international companies who are highly diversified, working in more than one country. For example, a pharmaceutical company with divisions in each country producing and marketing products developed by the parent company.
- Corporate strategic control with production and marketing independence at divisions

Matrix - grouping of projects and functions

Advantages

- Combines vertical and lateral lines of communication and authority
- Stability and efficiency (of mechanistic structure) with flexibility and informality (of inorganic structure)
- Emphasizes that project aims are all-important

Disadvantages

- Potential conflict between project leader and functional leader regarding resources
- Project may be jeopardized if project members as well as leaders enter the conflict on opposite sides
- Does not tolerate diversifications well

Centralization and Decentralization

Centralization when all the power for decision making rests at a single point in the organization ultimately in the hands of one person or group, the structure is **centralized**. If the power is dispersed among many people/groups, it is known as **decentralized or distributed**. Note that some functions (research, planning, finance, personnel) are less amenable to Centralization and decentralization should not be treated as absolutes, but rather as two ends of a continuum. Decentralization than others (e.g. contracting, client services).

Advantages:

- Frees top management of routine everyday decisions to concentrate on strategic responsibilities
- decisions are more local, quicker, more responsive to clients
- increased awareness of cost effectiveness through the organization
- increased motivation and satisfaction by junior management

Disadvantages:

- Requires good communication and adequate control to and from the center
- Need for center to coordinate/integrate
- Can lead to inequity in treatment of clients
- need individuals willing to take on additional responsibilities

In general, large organizations lean towards:

- less centralization
- more specialization
- more rules and procedures to be followed

Levels of the Organization

According to Drucker, organizations are layered into **three main levels**:

- The **Technical level** of the organization is concerned with specific operations and defined tasks, with actual jobs to be done, and with performance of the technical function.
- The **Managerial level** (or organizational level) is concerned with the coordination and integration of work, at the technical level, e.g. resource allocation, administration, and control of the operations of the technical function.
The **Community level** (or institutional level) is concerned with the broad objectives and the work of the organization as a whole. Decisions made at this level will include the selection of operations, development of organizations in relation to external agencies and the wider social environment.

Mintzberg's Nine Design Parameters

Design assumes discretion, an ability to alter the system. In the case of the organizational structure, design means “turning those knobs” that influences the division of labor and the coordinating mechanisms thereby affecting how the organization functions.

Consider the following questions, which are the **basic issues of structural design**:

- a. How many tasks should a given position in the organization contain, and how specialized should each task be?
- b. To what extent should the work content of each position be standardized?
- c. What skills and knowledge should be required for each position?
- d. On what basis should positions be grouped into units and units into larger units?
- e. How large should each unit be; how many people should report to a given manager?
- f. To what extent should the output of each position or unit be standardized?
- g. What mechanisms should be established to facilitate mutual adjustment among positions and units?
- h. How much decision power should be delegated to the managers of line units down the chain of authority?
- i. How much decision-making power should pass from the line managers to the staff specialists and operators?

These nine design parameters are the basic components of organizational structure, and they fall into **four broad groupings**:

Groups	Design Parameters	Related Concepts
Design of Positions	Job specialization	Basic Division of Labor
	Behavior Formalization	Standardization of work content System or Regulated flows
	Training and Indoctrination	Standardization of skills
Design of Superstructure	Unit Grouping	*Direct Supervision *Administrative Division of Labor *Systems of formal authority, Regulated flows, Informal Communication, and Work Constellations Organogram
	Unit Size	System of Informal Communication Direct Supervision Span of Control
Design of Lateral Linkages	Planning and Control Systems	Standardization of Output System of Regulated Flows
	Liaison Devices	*Mutual Adjustment *Systems of Informal Communication, Work Constellations, and Ad Hoc Decision Processes
Design of Decision-Making Process	Vertical Decentralization	*Administrative Division of Labor *Systems of Formal Authority, *Regulated flows, Work Constellations, and Ad Hoc Decision Processes
	Horizontal Decentralization	*Administrative Division of Labor *Systems of Informal Communication, Work Constellations, and Ad Hoc Decision Processes

(Biore, et al., 2024)

Organizational Relationships

Work can be combined in various forms. Decisions on the methods of groupings will consider:

- The need for coordination
- The identification of clearly defined divisions of work
- Economy
- The process of managing activities
- Avoiding conflict, and
- The design of work organization which takes account of the nature of staff employed, their interests and job satisfaction

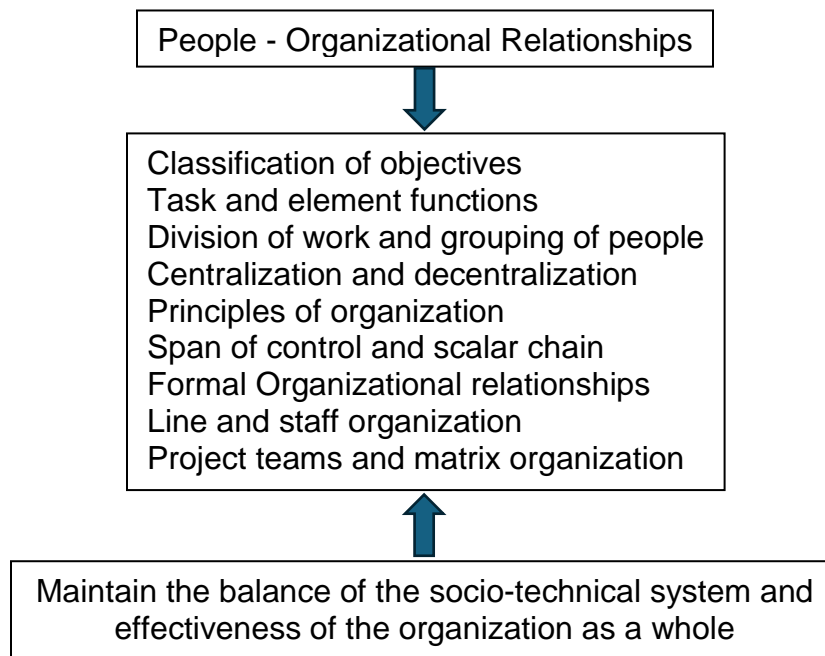
Formal

- **Line** - vertical flow of authority
- **Functional** - between specialists in advisory positions and line management teams
- **Staff** - personal assistants to senior members

Span of Control – number of direct reports. Influencing factors:

- Nature of organization, complexity of work, range of responsibilities
- Ability and personal qualities e.g. capacity of manager
- Time available to spend with subordinates
- Ability and training of subordinates
- Effectiveness of coordination, communication, control systems
- Physical location of subordinates

People and Organizational Relationships



(Biore, et al., 2024)

Factors affecting Organizational structure Selection in Multinational Corporations

The organization structure of the business environment is an approach that helps and guides in organizing the employees of the organization into a structured and organized pattern for better coordination and communication. The structure in a multinational company defines the architecture of the business competence, functional

relationship and management function. It helps in reducing confusion in the business environment and also supports in carrying out the business function smoothly and efficiently. The organization structure is affected by various internal and external factors which are also known as the **organizational environment**. Since organization works around these factors and the environment (Baumueller, 2007).

The **organizational environment** consists of all those factors that influence the organizational working and thus can also influence the organizational structure since in each country and geographical areas the organizational environment would change.

The **external organizational environment** that would influence the organizational structure is the **economic, political, and legal, socio-economic, technological, and natural factors**. All these factors of **organizational external environment** affect the selection of organizational structure since organizational structure which the organization chooses directly or indirectly would be affected by the changes in these factors (Baumueller, 2007).

The **external factors** that affect the organization structure are the economic factor which provides information about the market size and the competitor's strategy and the manner in which the organization should be structured to meet the company's objectives. The demand and supply for the product or service along with the wages and salary structure have an impact on the organizational structure of the company. The **organizational structure** is also affected by various political and legal factors and should be in accordance with the norms and policies of the government. The company should plan the organizational structure in accordance with the rules and policies of the country and should not avoid the rules as it might create consequences in the future.

The company also has to pay due importance to the various **socio-economic factors** and the **psychographic** and **demographic factors** as all the factors have a direct impact on the organizational structure. The company should take into consideration the culture, values, and beliefs of the society and accordingly plan for the structure in order to meet out the objectives. The **technological factor** is again one of the influential factors while selecting the organizational structure for a multinational organization.

Technology has quickened the communication flow from one level of organizational structure to another, which has influenced the organizational structure in a large way. **Technology** has also reduced the human resource requirements in multinational companies which has thus, directly affected the organizational structure since how many numbers of employees required or hierarchy required is based on the amount of work and the task that would be performed by those employees. **Technology** has increased the efficiency of the organization by helping the organization to more accurately and easily (Jeannet & Hennessey, 2005)

The **natural environment** by which the multinational companies surround also influence their organizational structure multinational companies operate at different

geographical locations which have differences in the timings, whether conditions and does not match with the subsidiary operating in another country which thus, becomes a crucial point at the time of selection of organizational structure (Baumueller, 2007).

The employee's culture, environment, language, values, etc. should be considered, so as to avoid the impact on the organizational structure. The organizational structure is further affected by the size and the nature of the company. The **internal factors** also play a very important role and affect the organizational structure (Moran, Harris & Moran, 2007).

The **internal factors** like the size of the company have a great impact on choosing and selecting the organizational structure. The **size of the company** can be defined by the geographic and product range of the company. The **company size** helps the company in choosing the optimum organizational structure in order to conduct the business operations effectively and efficiently. The company needs to go for an effective organizational structure to reach its desired goals and objectives (Moran, Harris & Moran, 2007).

The **company's product range and services** also have a direct impact on the organizational structure of the company. The company has to select the best organizational structure to handle the operations related to the products and its range as well as the services properly. The company has to plan for various departments and units in order to carry out the business operations in an appropriate manner and has to select the best organizational structure for proper coordination and communication among the various branches (Moran, Harris & Moran, 2007).

Apart from these factors one of the factors that influence the selection of organizational structure by multinational companies is their strategy. The **strategy** that the company is using should be an indicator of which organizational structure to adopt since with each of the different strategies there is a specific organizational structure that should be followed to accomplish the task with more efficiency. There are different types of strategies that multinational companies can adopt while launching the product in the new or the old market that includes the **differentiation strategy, cost leadership strategy, focus strategy**, etc. It is quite a fact that each of these strategies could influence the organizational structure of the organization since the implementation of these strategies would be done in a different manner. As per their plans, the company could use any of the strategies to achieve its goals (Baumueller, 2007).

Regulation

Regulation is the administrative process of writing and passing laws that, to a certain extent, restrain some fundamental rights of businesses. It can be distinguished from principal legislation by an elected legislative body. **Regulation** can take many forms: **legal restrictions** promulgated by a government authority, **self-regulation** by an

industry in which the type of business belongs such as through a trade association, **social regulation**, and **market regulation**. One can consider **regulation** as an action of imposing sanctions or penalties to the extent permitted by the law.

Areas of Government Regulation of Business

Relevant to the existence of business

The state will take charge of Economic Activity

A **centrally planned economy** is one where all major economic decisions are under the control of the government. This type of economy is typically associated with socialist and communist ideals and was first attempted in the Soviet Union in the early 20th century. In contrast to a free market or capitalist economy, a **centrally planned economy** does not allow the supply and demand of the market to define prices, wages, or the production of goods.

The theory behind **centrally planned economy** begins with the idea that the market is not a measure of what is best for the country. Subject to whim, trend, and a myriad of opinions, the free market can slow or even impede the goals of a central government. By having the state run the economy, the government is totally able to enact the programs, schemes, and plans deemed as best for the country by the leaders.

Most **modern economies** include a mix of centrally planned and free market behavior. While the government may control certain areas of the economy, much of the market runs at the impulse of the people. In such an economy, a person has the right to start a private business, thanks to the free market, but may have to pay business taxes and charge a sales tax based on the centrally planned aspects.

Advantages of Planned Economy

A. Driven for collective Benefits - Government decided economies can be proposed to serve communal rather than individual needs. Following that system, rewards, and other benefits are to be distributed according to the price that the state credits to the service performed. A **planned economy** eradicates the individual profit motives as the driving force of production and rests it in the hands of government planners to determine the appropriate production of different sets of goods.

Government can exploit land, labor, and capital to provide the economic purposes of the state. **Consumer demand** can be contained in favor of bigger capital venture for economic advancement in a preferred blueprint. The state can commence building a heavy industry at once in an underdeveloped economy without waiting years for capital to accumulate through the expansion and without reliance on external financing. This was the case of Soviet Union during the 1930s when the government mandates, the Soviet Union experienced gigantic growth in heavy industries.

B. Economies of Scale - A government run economy would endeavor to replace a number of firms with a single firm for the whole country. This makes the business the sole beneficiary on the advantage of single market, arbitrary pricing, and unilateral product offering.

C. Inherently Protected - Government planned economy is not subject to major downside of market economies and market-oriented mixed economies. A **planned economy**, theoretically, does not suffer from business cycles; it does not experience crises of overproduction. From the modern perspective, it does not result in asset bubbles and massive misallocations of resources such as the South-Sea bubble in Britain, the dot-com bubble of the late 1990s or the housing bubble of mid-2000s.

Another facet is that a **centrally mapped economy** can offer public goods which would not have been available at all or might require explicit government provision. In a **planned economy**, government planners would apportion state resources en route for public goods and state projects.

D. Stability- When the government is in charge, long-term ventures can be made without fear of a market downward spiral which can easily lead to abandonment of a project. This is especially important where returns are risky, in some advanced economies, one of the examples would be running a prison which decisions vary and are dependent from one administrator to another. In developing countries like the Philippines, construction of roads for toll fee is another example in which government has to control or to certain extent should bleed-out investment money to give private investors the assurance in terms of protective government policies. Proof of this is the decision of the Supreme Court of the Philippines favoring the incremental charges (be it tax or plain increase) made by NLEX and SLEX.

Disadvantages of Planned Economic Activity

A. Inefficient Use of Resources - Critics of planned economies are pushing the idea that planners cannot detect consumer preferences, shortages, and surpluses within the ideal level of accuracy and therefore cannot efficiently coordinate production. From the modern viewpoint, production shortage or surplus is proof of a mismatch between supply and demand, clear and convincing evidence of wastage in terms of government resources.

Surpluses magnify the waste of labor and materials that could have been useful to more pressing needs of society. Critics of central planning assert that a market economy prevents long-term surpluses because the operation of supply and demand causes the price to go down when supply begins going beyond demand, telling producers to stop production or face losses. A scenario that liberates resources to be

applied to satisfy short-term shortages of other commodities, as determined by their rising prices as demand begins exceeding supply.

It is argued that this “**Invisible Hand**” prevents long-term shortages and surpluses and permits efficiency at optimum level in satisfying the needs and wants of consumers. People against planned economy argue that since in a **planned economy** prices are not permitted to float freely, there is no accurate mechanism to determine what is being produced in unnecessarily large amounts and what is being produced in insufficient amounts. They argue that efficiency is best attained through a **market economy** where individual producers each make their own production decisions based on their own profit motive.

B. Restraint of Democracy in Trade - Given that central planning overcame its built-in inhibitions of incentives and innovation, it would nevertheless be unable to maximize economic democracy and self-management, which some believes are concepts that are more rationally consistent, reliable, and just than ordinary ideas of economic freedom.

As Robin Hahnel explains, “Combined with a more democratic political system, and redone to closer approximate a best-case version, centrally planned economies no doubt would have performed better. But they could never have delivered economic self-management, they would always have been slow to innovate as apathy and frustration took their inevitable toll, and they would always have been susceptible to growing inequities and inefficiencies as the effects of differential economic power grew. Under central planning neither planner, managers, nor workers had incentives to promote social economic interest. Nor did impending markets for final goods to the planning system enfranchise consumers in meaningful ways. But central planning would have been incompatible with economic democracy even if it had overcome its information and incentive liabilities. And the truth is that it survived as long as it did only because it was propped up by unprecedented totalitarian political power.” Without economic democracy there can be troubles with the flow of knowledge.

Imposition of legal and administrative barriers

Based on research the following are the identified and recurring legal and administrative barriers to entrepreneurship common to ASEAN countries (Adopted from Administrative Barriers to Entrepreneurship by Elena Suhir):

A. Disproportionate Licensing and Regulatory Requirements - The regulatory and licensing barriers are perennial in today’s system whereby one must obtain approval from the authorities to embark on even the smallest task. While it is true that some Asian governments are vocal in their support and praise for the open and free market system, the businesspeople appear to have to seek permission from the government at every step of operations.

The entrepreneurially “permissive” climate characterized by profuse over-regulation continues to inflict injuries and losses on entrepreneurial activity across all sectors of the economy. When entrepreneurs attempt to seek legal redress to register, they soon discover a different level of hurdles: some choose to pay bribes, keep prices artificially low and force competitors out of business.

Some entrepreneurs lobby the government for redress, but governments rarely act against the abuser(s). The weak rule-of-law mechanisms do not punish corruption, it helps propagate it and rather only serve to reinforce the administrative barriers. Sometimes government officials refuse to cooperate with the entrepreneurs, leaving the informal sector as the only way to do business in a semi-official, shadow environment. The common pattern of conducting business by SMEs in some Asian countries and in the Philippines, in particular, trivially consists of **three options for the entrepreneur**: (1) enter the informal sector by paying bribes each step of the way, (2) secure and utilize “connections” in government, and/or (3) obtain a government position and abuse the system of authority to one’s benefit.

B. Excessive, Complex and Arbitrary Taxation - The taxation system can sometimes be complex, subject to abuse by government officials (and businesses) and appears to change frequently. The net effect of an excessive, abusive, and arbitrary system of taxation is that SMEs find it virtually impossible to conform to all the laws and tax regulations, making the informal initiative and creative legal deviations the only chance to survive in the market. **Tax** can sometimes be the major reason for capital flight that hurts the overall economy.

C. Inadequate Banking System and Poor Banking Practices - Inadequate banking system can also impose impossible demands on entrepreneurs. Issues involving time frames, and terms of credit for repayments are sometimes prohibitive, collateral is difficult to provide, and finding a guarantor to help secure a loan is very difficult. However, we cannot blame this banking practice considering that one of the underlying reasons for the poor banking practices is the **high risk of delinquency or bad loans**. This problem though is not much of a case in the Philippines as our banking system is functioning well and at level enough to become good complement for economic progress. There is one issue left however that needs to be addressed and that is access to capital especially to micro, small, and medium scale enterprises (MSMEs).

D. Lack of Government’s Commitment to Reduce Administrative Barriers - A good mass within the business community and even those outside of business recognizes that the governments are doing little to reduce administrative barriers impeding investment and trade. Some entrepreneurs are even silently blaming the governments for having little and poor understanding of the importance of addressing these problems.

Given the preceding paragraph, one can contend that something needs to be done

by the government to maximize the benefits of a free market. As a result, the informal sector continues to grow and the income the governments would have otherwise collected is lost. This lost money could have been used to spend on basic services that are expected from the government.

Regulations Relevant to the Conduct of Business

The **government** has set many business regulations in place to protect employees' rights, protect the environment and hold corporations accountable for the amount of power they have in this business-driven society. Some of these regulations stand out more significantly than the others because of their relevance to every employee, consumer, and society in general.

Advertising

Laws pertaining to marketing and advertising set in motion by the regulatory authority exist to protect consumers and keep companies honest about their products. Every business is required to comply with the advertising laws and could face lawsuits for violation. **Advertising laws** are made up of dozens of tidbits under **three main requirements**: advertising must be truthful and non-misleading; businesses need to be able to back up claims made in advertisements at any time; and advertisements must be fair to competitors and consumers. Additionally, in compliance with the packaging and labelling requirements, all product labels must include information about the product, such as nutrition, size, and distribution and manufacturing information.

Employment and Labor

Among the ever-changing regulations in business are **employment laws**. These laws pertain to minimum wages, benefits, safety, and health compliance, working conditions, equal employment opportunity, and privacy regulations cover the largest area of subjects of all the business regulations. Several employment regulations stand out as the heavy hitters among the others. The **Department of Labor and Employment (DOLE)** through the **Regional Tripartite Wages and Productivity Board (RTWPB)** set the minimum wage for workers in the Philippines. There are also several required benefits, including unemployment insurance, worker's compensation insurance and employee social security assistance which is mandatory and applicable generally to all employees.

Environmental

The carbon footprint of businesses on the environment is regulated by the Department of Environment and Natural Resources (DENR). The **DENR** enforces environmental laws passed by the government. This is done through frequent inspections and environmental audit. The **Environmental Bureau (EMB)** and other offices and bureau exist to help businesses small and large alike achieve environmental compliance and should serve as a resource more than an enforcer.

Privacy

Sensitive information is usually collected from employees and customers during

hiring and business transactions and **privacy laws** prevent businesses from disclosing this information freely. Information collected can include social security number, address, name, health conditions, credit card and bank numbers and personal history. Not only do various laws exist to keep businesses from spreading this information, but people can sue companies for disclosing sensitive information.

Safety and Health

The safety and health laws ensure that employees provide safe and sanitary work environments through frequent inspections and a grading scale. A company must meet specific standards in order to stay in business. These regulations have changed frequently throughout the years alongside the changing sanitary and workplace standards. In accordance with legal provisions, employers must provide hazard-free workplaces, avoiding employee physical harm and death, through incorporating these in procedures manual.

Political Environment of Business

Regardless of how attractive the economic prospects of a particular country or region are, doing business there might prove to be financially devastating if the host government imposes heavy financial consequential penalties on a company. All unanticipated events in the political arena will also lead to the loss of revenue assets resulting from policy change.

The **political environment** in which the firm operates will have a significant impact on a company's international operating activities. The greater the level of involvement of the company in a foreign market's, the greater the need to monitor the political climate of the countries where the business is conducted since this political climate will affect among others the marketability of the company's product, the inflow of investments and more importantly valuation of share price.

Changes in government more often result in changes in policy and attitudes towards foreign business. Bearing in mind that a foreign company operates in a host country at the discretion of the government concerned, the government can either encourage foreign activities by offering attractive opportunities and incentives for investment and trade or discourage its activities by imposing disincentives and restrictions such as unfriendly stricter regulations and import quotas, etc. An exporter that is continuously aware and in touch of shifts in government attitude needs to be able to adapt export operation strategies accordingly.

Almost all governments today have an active participation in their countries' economies. Although evident to a greater or lesser extent in most countries, government ownership of economic activities is still customary in the former centrally planned economies, as well as in certain developing countries which lack a sufficiently well-developed private sector to support a free market system.

One of the primary concerns of an investor should be the stability of the target country's political environment. A loss of confidence in this respect could lead to a company having to reduce its operations or to withdraw altogether. One of the surest indicators of political instability is a frequent change in regime. Although a change in government need not be accompanied by violence, it is often a precursor of change in policy towards business, particularly international business. Such a development could impact harshly on a firm, long-term international commitment.

Reflected in a government's attitudes and policies towards foreign business are its ideas about how to best promote national interest in the light of the country's economic and political resources and objectives. Foreign products and investment seen to be vital to the growth and development of the economy often receive favorable treatment from the government in the form of reduced tax, exemption from quotas, and other incentives. On the other hand, products classified by a government to be luxury, non-essential, undesirable, or a threat to local industry are frequently subjected to a variety of import restrictions such as quotas and tariffs.

Textbook:

Good Governance & Social Responsibility, Dr. Christopher Biore, Dr. Roberto Gonzales, Prof. Jose Lemuel Caparas, Dean Nilo Burgos and Prof. Win Ballada, ASEAN (Academicians, Students, Educators and Alliance) Inc.
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