Political Factors Affecting Business

There are many external environmental factors that can affect your business. It is common for managers to assess each of these factors closely. The aim is always to take better decisions for the firm’s progress. Some common factors are political, economic, social and technological (known as PEST analysis). Companies also study environmental, legal, ethical and demographical factors.

The political factors affecting business are often given a lot of importance. Several aspects of government policy can affect business. All firms must follow the law. Managers must find how upcoming legislations can affect their activities.

The political environment can impact business organizations in many ways. It could add a risk factor and lead to a major loss. You should understand that the political factors have the power to change results. It can also affect government policies at local to federal level. Companies should be ready to deal with the local and international outcomes of politics. Changes in the government policy make up the political factors. The change can be economic, legal or social. It could also be a mix of these factors.

Increase or decrease in tax could be an example of a political element. Your government might increase taxes for some companies and lower it for others. The decision will have a direct effect on your businesses. So, you must always stay up-to-date with such political factors. Government interventions like shifts in interest rate can have an effect on the demand patterns of company.

Certain factors create Inter-linkages in many ways. Some examples are:

- Political decisions affect the economic environment.
- Political decisions influence the country’s socio-cultural environment.
- Politicians can influence the rate of emergence of new technologies.
- Politicians can influence acceptance of new technologies.
The political environment is perhaps among the least predictable elements in the business environment. A cyclical political environment develops, as democratic governments have to pursue re-election every few years. This external element of business includes the effects of pressure groups. Pressure groups tend to change government policies.

As political systems in different areas vary, the political impact differs. The country’s population democratically elects open government system. In totalitarian systems, government’s power derives from a select group.

Corruption is a barrier to economic development for many countries. Some firms survive and grow by offering bribes to government officials. The success and growth of these companies are not based on the value they offer to consumers.

Below, is a list of political factors affecting business:

- Bureaucracy
- Corruption level
- Freedom of the press
- Tariffs
- Trade control
- Education Law
- Anti-trust law
- Employment law
- Discrimination law
- Data protection law
- Environmental Law
- Health and safety law
- Competition regulation
- Regulation and deregulation
- Tax policy (tax rates and incentives)
- Government stability and related changes
- Government involvement in trade unions and agreements
- Import restrictions on quality and quantity of product
- Intellectual property law (Copyright, patents)
- Consumer protection and e-commerce
- Laws that regulate environment pollution
There are 4 main effects of these political factors on business organizations. They are:

- Impact on economy
- Changes in regulation
- Political stability
- Mitigation of risk

**IMPACT ON ECONOMY**

The political situation of a country affects its economic setting. The economic environment affects the business performance.

For example, there are major differences in Conservative and Labour policies in the UK. This influences factors like taxes and government spending, which ultimately affect the economy. A greater level of government spending often stimulates the economy.

**CHANGES IN REGULATION**

Governments could alter their rules and regulations. This could in turn have an effect on a business.

After the accounting scandals of the early 21st century, the US SEC became more attentive on corporate compliance. The government introduced the Sarbanes-Oxley compliance regulations of 2002. This was a reaction to the social environment. The social environment urged a change to make public companies more liable.

**POLITICAL STABILITY**

Lack of political stability in a country effects business operations. This is especially true for the companies which operate internationally.

For example, an aggressive takeover could overthrow a government. This could lead to riots, looting and general disorder in the environment. These disrupt business operations. Sri Lanka was in a similar state during a civil war. Egypt and Syria faced disturbances too.

**MITIGATION OF RISK**

Buying political risk insurance is a way to manage political risk. Companies that have international operations use such insurance to reduce their risk exposure.
There are some indices that give an idea of the risk exposure in certain countries. The index of economic freedom is a good example. It ranks countries based on how politics impacts business decisions there.

![2015 Economic Freedom Heat Map][1]

THE IMPORTANCE OF OBSERVING THE POLITICAL ENVIRONMENT

Firms should track their political environment. Change in the political factors can affect business strategy because of the following reasons:

- The stability of a political system can affect the appeal of a particular local market.
- Governments view business organizations as a critical vehicle for social reform.
- Governments pass legislation, which impacts the relationship between the firm and its customers, suppliers, and other companies.
- The government is liable for protecting the public interest.
- Government actions influence the economic environment.
- Government is a major consumer of goods and services.
EXAMPLE: HOW POLITICAL FACTORS AFFECT NIKE

Studies show that Nike has earned high profits from the growth orientated policies of US government. The policies maintained low-interest rates. Currency exchange stability and internationally competitive tax arrangements were also maintained. The company has also benefited from government initiatives in terms of transparency in the global value chain.

One example of this is in membership of the Clinton administration’s 1997 Apparel Industry Partnership. Nike enjoyed changes in the political factors in many ways. However, political pressures had a negative impact on Nike’s employment practices.