

## Business Environment

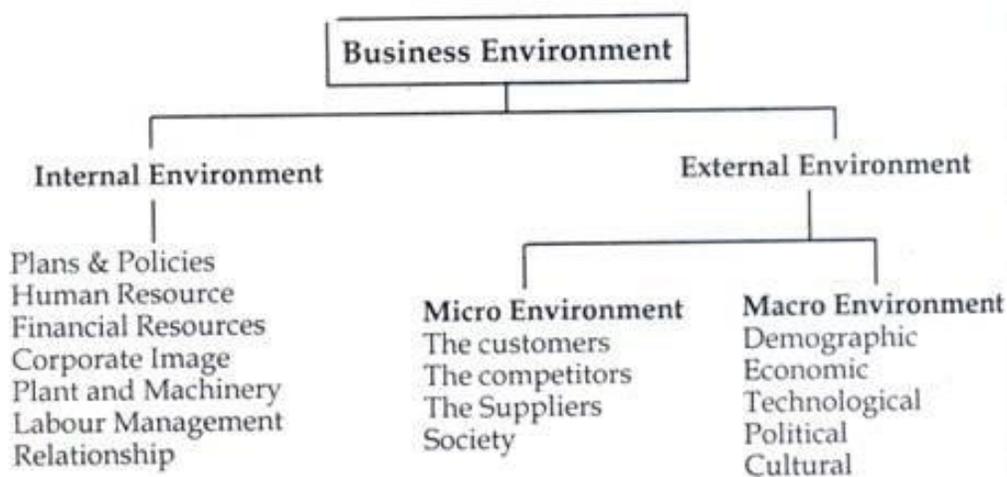
The definition of Business Environment, “**The sum total of all individuals, institutions and other forces that are outside the control of a business enterprise but the business still depends upon them as they affect the overall performance and sustainability of the business.**”

The forces which constitute the business environment are its suppliers, competitors, consumer groups, media, government, customers, economic conditions, market conditions, investors, technologies, trends, and multiple other institutions working externally of a business constitute its business environment. These forces influence the business even though they are outside the business boundaries.

The Business Environment is the most important aspect of any business. To be aware of the ongoing changes, not only helps the business to adapt to these changes but also to use them as opportunities. Business Environment presents threats as well as opportunities for any business. A good business manager not only identifies and evaluates the environment but also reacts to these external forces.

### Elements of Business Environment

The business environmental factors may be classified into different types. There are broadly two types of environment that affects the organisation, internal environment and external environment



## **Inland Environment:**

Environment which lies within the origin is known as internal environment. Internal factors are generally regarded as controllable factors.

## **Factors of Internal Environment:**

Internal environment includes internal factors of the business. It includes plans and policies, human resource, financial resource, corporate image, plant and machinery, labour-management relationship, promoter's vision etc. The components of internal environment are controllable.

## **The following are the factors of internal environment:**

### **1. Plans & Policies:**

The plans and policies of the firm should be properly framed taking into consideration the objectives and resources of the firm. Proper plans and policies help the firm to accomplish its objectives.

The higher authority must analyse the internal environment to foresee the changes and frame appropriate policies well in time.

### **2. Human Resource:**

The survival and success of the firm largely depends on the quality of human resources. The social behaviour of the employees greatly affects the working of the business. The characteristics of human resource like skill, quality, morale, commitment can contribute to the success of the organisation.

If the employees of the organisation are skillful and committed, it can take the firm to a great height. Neglecting the human resource by the management can hamper the success of the organisation.

### **3. Financial Resources:**

Capital is the lifeblood of every business. Finance relates to money. A firm needs adequate funds to meet its working capital and fixed capital requirements. There is a need to have proper management of working capital and fixed capital.

Financial factors like financial policies, financial status (position) and capital structure also influence the internal environment of a firm affecting its performance- If the firm enjoys sufficient financial resource, it can spend on research and promotional activities.

#### **4. Corporate Image:**

A firm should develop, maintain and enhance a good corporate image in the minds of employees, investors, customers etc. Poor corporate image is a weakness of the firm.

Constant research and development activities should be undertaken by the firm to enhance the quality of the brand. This helps in creating a corporate image and strengthens the standard of the firm in the market.

#### **5. Plant and Machinery:**

Plant and machinery is the internal part of the business firm. If the machines are obsolete or outdated, they should be replaced by a new one, or that adversely affects the business firm.

#### **6. Labour and Management Relationship:**

There should be smooth labour and management relationship. The management should understand the problems of their workers and gain confidence in them. The labours should be motivated by providing with monetary and non-monetary incentives (benefits).

Better Labour- Management relationship helps in increasing the morale of the employees and motivates them to put efforts in the business. Such strong relationship enhances organisations development.

#### **7. Promoters vision:**

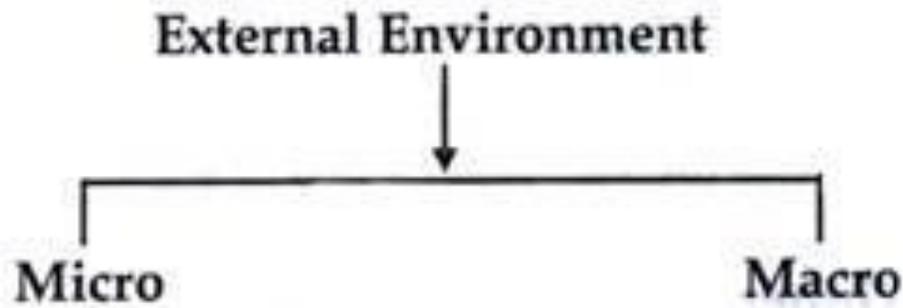
The promoter should have far sight vision to forecast opportunities and threats in the business so that the opportunities are properly grabbed and threats are diffused off in time.

#### **External Environment:**

The environment, which lies outside the organisation, is known as external environment. External factors are unpredictable and uncontrollable. They are beyond the control of the company.

#### **External environment is further classified as:**

I. Micro Environment, II. Macro Environment

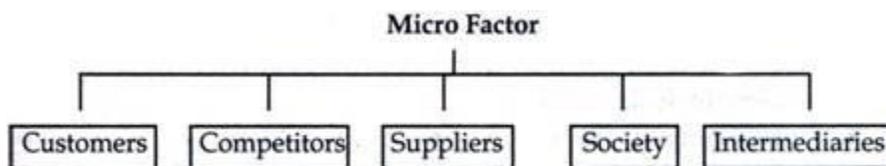


### I. Micro Environment:

Micro environment is also known as operating environment. It consists of company's immediate environment that affect its performance. It includes customers, suppliers, intermediaries, competitors etc. The micro environment consist the elements that directly affects the company.

#### **1. The customers:**

Consumer is the king of the market. They are the centers of the business. They are one of the most important factors in the external environment. Customer satisfaction has become more challenging due to globalisation.



#### **2. The competitors:**

The company has to identify its competitor's activities. Information must be collected about competitors in respect of their prices, products, and promotion and distribution strategies. World is becoming a global market.

#### **3. The Suppliers:**

Suppliers supply raw material, machines, equipment's and other supplies. The company has to keep a watch over prices and quality of materials and machines supplied. It also has to maintain good relations with the suppliers.

#### **4. Society:**

Society affects company's decisions. The expectation of the society from the business is increasing. Therefore the business firm maintains public relations department to handle complaints, grievances and suggestions from general public. The members of the society include:

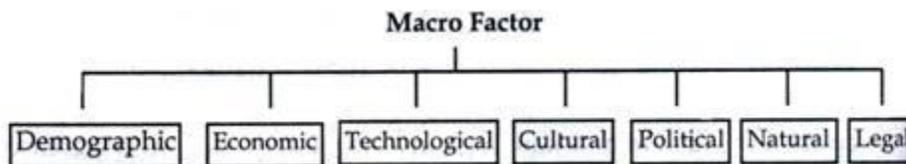
- i. Financial institutions
- ii. Shareholders
- iii. Government
- iv. Employees
- v. General public

**5. Marketing intermediaries:**

Market intermediaries include agents and brokers who help the business firm to find the customers. They help the firm to promote and distribute the goods to the final consumers.

**II. Macro Environment:**

The macro environment consists of the larger societal factors that affect the working of a firm. Macro environment is also known as general environment. The macro factors are generally uncontrollable.



**Macro Factor:**

Demographic Economic Technological Cultural Political Natural Legal

**1. Demographic Environment:**

Demographic Environment relates to the human population with reference to its size, education, sex ratio, age, occupation, income, status etc. Business deals with people so they have to study in detail the various components of demographic environment

**2. Economic Environment:**

Economic environment consists of economic factors that influence the functioning of a business unit. These factors include economic system, economic policies, trade cycle, economic resources, gross national product, corporate profits, inflation rate, employment, balance of

payments, interest rates, consumer income etc. Economic environment is dynamic and complex in nature

### **3. Technological Environment:**

Technology has brought about far reaching changes in the methods of production, quality of goods, productivity, and packaging. There is a constant technological development-taking place.

The business firm must constantly monitor the changes in the technological environment, which may have a considerable impact on the working of a business. It also indicates the pace of research and development and progress made in introducing modern technology in production.

### **4. Cultural Environment:**

Culture involves knowledge, values, belief, morals, laws, customs, traditions etc. Culture passes from one generation to another through institutions like family, schools, and colleges. Business is an integral part of the social system.

### **5. Political Environment:**

The political environment in a country influences the legislations and government rules and regulations under which a firm operates.

### **6. Natural Environment:**

Resource availability like land, water and mineral is the fundamental factor in the development of business organisation. It includes natural resources, weather, climatic conditions, port facilities, topographical factors such as soil, sea, rivers, rainfall etc.

Every business unit must look for these factors before choosing the location for their business.

### **7. Legal Environment:**

The state sets the formal rules, laws and regulations for the country's operational system. It creates a framework of rules and regulations within which a business has to operate. The business should have complete knowledge of laws and policies to run the business effectively.

