Components of business environment  
On the basis of extent of intimacy with the firm, the environmental factors may be classified into different levels or types. There are broadly two types of environment, the internal environment, i.e. factors internal to the firm and the external environment i.e. factors external to the firm which have relevance to it.  
The internal factors are generally regarded as controllable factors because the company has control over these factors; it can alter or modify such factors as its personnel, physical facilities, organization and functional means such as marketing mix to suit the environment.  
The external factors on the other hand are, by and large, beyond the control of a company. The external or environmental factors such as the economic factors, socio-cultural factors, government and legal factors, demographic factors etc., are therefore generally regarded as uncontrollable factors.  
Some of the external factors have a direct and intimate impact on the firm (like the suppliers and distributors of the firm). These factors are classified as micro environment, also known as task environment and operating environment. There are other external factors which affect an industry very generally (such as industrial policy, demographic factors etc.). They constitute what is called macro environment, general environment or remote environment.  
We may therefore consider the business environment at three levels:   
• Internal environment  
• Micro environment/ task environment/ operating environment  
• Macro environment/ general environment/ remote environment  
although business environment consists of both internal and external environments, many people often confine the term to the external environment of business.  
  
**A.** **Internal environment**

Internal environment includes all those factors which influence business and which are present within the business itself. These factors are usually under the control of business. The study of internal factors is really important for the study of internal environment. These factors are :( I) Objectives of Business, (ii) Policies of Business, (iii) Production Capacity, (iv) Production Methods, (v) Management Information System, (vi) Participation in Management, (vii) Composition of Board of Directors, (viii) Managerial Attitude, (ix) Organizational Structure, (x) Features of Human Resource, etc. **Note:** All the above factors do influence the decisions of business, but since all these factors are usually under the control of business, they cannot be wholly included in the business environment.

**B. External Environment**

External environment includes all those factors which influence business and exist outside the business. Business has no control over these factors. The information about these factors is important for the study of the external environment.

Some of these factors are those with which a particular company has very close relationship. However, there are some other factors which influence the entire business community.

Micro environment means that environment which includes those factors with which business is closely related. These factors influence every industrial unit differently. These factors are as under:

(I) Customers (ii) Suppliers (iii) Competitors (IV) Public (v) Marketing Intermediaries.

**(I) Customers:**

Customers of an industrial unit can be of different types. They include household, government, industry, commercial enterprises, etc. The number of different types of customers highly influences a firm.

For example, suppose a firm supplies goods only to the government. It means that firm has only one customer. If because of some reason their relations get soured, the supply of goods will stop and in that case the closure of that firm is certain.

This clearly indicates that the customers do influence business. Therefore, a firm should make efforts to have different kinds of customers,

**(ii) Suppliers:**

Like the customers, the suppliers also influence business. If a business has only one supplier and he gets annoyed because of some reason, the supply of goods can be stopped and the very existence of the business can be threatened or endangered. Hence, efforts should be made to have various suppliers.

**(iii)** **Competitors:**

The competing firms can influence business in a number of ways. They can do so by bringing new and cheap products in the market, by launching some sale promotion scheme or other similar methods.

**(iv)** **Public:**

Public has different constituents like the local public, press or media, etc. The attitude or behavior of these constituents can affect business units. For example, the local population can oppose some established firm whose business is excessively noisy.

Similarly, if the media gives some favorable report about a particular company the price of its share can register an increase on this count.

**(v) Marketing Intermediaries:**

The marketing intermediaries play a significant role in developing any business unit. They are those persons who reduce the distance between the producers and agents.

For example, a company sells its goods with the help of agents and if because of some reason all the agents get annoyed with the company and refuse to sell its goods, there can be a crisis for the company.

* *Describe the factors that form an environment*

The environment is a complex combination of the economic system, political system, legal restraints, society, industry, labor relations, customer expectations, markets, competition, technology, culture, history, infrastructure, state of the economy, shareholder demands, natural environment, labor conditions, and so on. We can classify these factors into five categories of the physical environment, political and legal factors, economic factors, social and socio-cultural factors, and technological factors. Alternatively we can consider inherent or macro factors that give the infrastructure and framework, and competitive or micro factors that are set by the industry and market

* *Discuss the concept of an industry and the features that make it attractive to an organization.*

An industry is a group of organizations that use similar resources to make equivalent products to satisfy the same customer demand. When planning its products, an organization implicitly makes a choice about the industry it works in. many features can make an industry attractive, including the size of market, financial performance, type of products, point in their life cycles, number and features of customers, patterns of demand, state of competitors, basis of competition, resource requirements, efficiency, economies of scale, levels of technology, seasonal variations, entry and exit barriers, relations in the supply chain, risks, and so on.

* *Discuss the concept of a market and the features that make it attractive to an organization.*

The market is the set of customers who buy – or might buy – a particular type of product. As a rule, organizations do not like working in markets that are aggressively competitive. This means that in more attractive markets Porter’s five competitive forces are all weak – in other words, there is little competition from existing organizations, weak suppliers and customers, and low chance of substitute products and new entrants. But the market does not have to look like this, and a well-designed strategy can allow an organization to succeed in even the most hostile market.

* *Consider the ways that managers respond to changes in the environment.*

There are continuous changes in the environment and managers have to make appropriate responses. In effect, they have to assess potential events in the future, and then make decisions based on the likelihood of these events occurring, and the consequences if they do occur. Several analyses can help here, particularly decision rules and expected values (or utilities). Then the chapter lists nine possible reactions, ranging from ignoring potential changes (particularly if they are unlikely to happen or if the consequences are minor) to moving to another environment (if changes are very likely to happen and have serious consequences).

**DISCUSSION QUESTIONS**

1. *What factors should managers consider in their organization’s environment?*

In principle, they should consider every external factor that is likely to affect performance. This can be a very broad group indeed, so it is realistically impossible to consider every factor. Normally managers concentrate on a small number of factors that they think are most important. These typically centre on questions of the industry and market.

1. *Do you agree with the view that business should not be concerned with ethics, as any action that is sufficiently harmful will be illegal, and any action that is legal must be acceptable?*

This is a view that is quite widely held – anything legal is permissible. However, most people disagree and say that companies should behave responsibly and ethically as well as just legally. As individuals we do things because they are ‘right’ – at least most of us do – and we should expect organizations to behave in the same way.

1. *Some people say that organizations do not succeed by fitting their strategy to opportunities in an existing environment, but by developing strengths to create entirely new opportunities. What does this mean?*

The traditional view says that the environment is fixed, so organizations must adopt their own operations to succeed within this environment. Some more aggressive competitors say that this gives conformity, and if managers are innovative enough they can actually change the environment and create new opportunities, industries and markets. For example, when Amazon.com started selling books through their Website they did not compete in an existing environment, but developed a completely new product and market – thus changing the business environment.

1. *Economic analyses, like the models for supply and demand, are usually so simplified that they are of little practical value to organizations. Do you think this is tru*e?

Not really. It is true that economic models are simplified views of reality – but so is every other kind of model. The point of a model is not that it is a perfect reproduction of reality, but that it gives information that can help managers make decisions. Based on this criterion, economic models can be very useful.

1. *What is the difference between an industry and a market?*

An industry is a group of organizations that use similar resources to make equivalent products to satisfy the same customer demand. The market is the set of customers who buy – or might buy – a particular type of product. So the industry focuses on supply, while the market focuses on demand.

1. *An organization has to match its operations to both the industry that it works in and the market that it satisfies. How can it satisfy both of these requirements?*

This needs a balance – and achieving this balance is one of the most difficult jobs of management. If they put too much emphasis on the market, they may not satisfy their internal requirements; if they put too much emphasis on their own operations, they may not satisfy the market. This becomes easy when the two requirements are aligned – and we shall see in later chapters that high quality products or fast delivery give benefits to both customers and suppliers. Often, though, there is some conflict between requirements, and then finding the best balance is more difficult. The trend in recent years has been increasingly to put more emphasis on customer requirements – with the implication that it is easier to adjust internal operations than find new customers.

1. *Organizations only succeed by satisfying market requirements. Does this mean that marketing is the only really import function?*

No. It is easy to satisfy customers if you put unlimited resources into customer satisfaction, with no regard for the internal operations. A car manufacturer could satisfy customers by supplying a car with higher specifications and quality than a Rolls Royce, but charging less than a Hyundai. But it could only do this until it went out of business. And there are many more aspects of the external environment to consider than the market. The aim of an organization is to balance all of the external requirements – including the market – with all of the internal requirements.

1. *If you ask senior managers what they do, they say that they analyses circumstances to design and implement strategies. If you watch what they do, they spend most time reviewing past performance and justifying their previous decisions. Why is this?*

There are really two aspects to this question. The first is a matter of the image that managers want to portray. They want to be seen as productive and leading their business into the future rather than mulling over past events. So they inevitably emphasize their role in plotting future directions and moving the business forward. Also, they do not want to be seen as irrational, subjective decision makers, so they emphasize rational analyses and the formal procedures they use to make decisions. Unfortunately, this image may be far from reality, where managers often make decisions in quite irrational ways. And this leads to the second factor, which arises from management rewards that are based on the performance of their organizations. But management is not an exact science where people look for the single best solution, and performance depends on many factors, only some of which are directly controlled by managers. So they have to convince everyone that their decisions were the best ones in the prevailing circumstances.

Articles taken from:

http://www.studymode.com/essays/Components-Of-Business-Environment-878763.html