

Internal and External Factors – What are They?

First, you need to understand that there is a variation of internal and external factors depending on the size, type, and business status. However, you can find those key factors by analyzing the business environment using the following categories:

Internal Environment Factors

Definition

The internal factors refer to anything within the company and under the control of the company no matter whether they are tangible or intangible. These factors after being figured out are grouped into the strengths and weaknesses of the company. If one element brings positive effects to the company, it is considered as strength.

On the other hand, if a factor prevents the development of the company, it is a weakness. Within the company, there are numerous criteria need to be taken into consideration.

Types

There are 14 types of internal environment factors:

1. Plans & Policies
2. Value Proposition
3. Human Resource
4. Financial and Marketing Resources
5. Corporate Image and brand equity
6. Plant/Machinery/Equipments (or you can say Physical assets)
7. Labour Management
8. Inter-personal Relationship with employees
9. Internal Technology Resources & Dependencies
10. Organizational structure or in some cases Code of Conduct
11. Quality and size of Infrastructure
12. Task Executions or Operations
13. Financial Forecast
14. The founders relationship and their decision making power.

External Environmental Factors

Definition

On the contrary to internal factors, external elements are affecting factors outside and under no control of the company. Considering the outside environment allows businessmen to take suitable adjustments to their marketing plan to make it more adaptable to the external environment.

There are numerous criteria considered as external elements. Among them, some of the most outstanding and important factors need to listed the are current economic situation, laws, surrounding infrastructure, and customer demands.

Types

Micro factors:

1. Customers
2. Input or Suppliers
3. Competitors
4. Public
5. Marketing & Media
6. Talent

Macro factors:

1. Economic
2. Political/legal
3. Technology
4. Social an
5. Natural

Method of study

There are many factors affecting business have been studied, among them, we provide you a deep insight of the most decisive factors, which are at the center of every business today

Internal impacts

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Human resources

In the modern global economy, where ideas and digital skills – rather than physical resources are increasingly where economic value is realised, human resource can be a company's greatest treasure. In general, the employees can be either a strength or weakness of the company depending on the level of practical skills, attitudes toward work, performance and so on. For example, if a business has skilled and motivated workers, they are sure to be the biggest asset of this enterprise.

Conversely, employees without carefully trained and have negative attitudes to their task will be an enormous challenge for the company to address. In short, the CEO should have a strategic and effective human management not only for the sake of company benefits but also for the positive development of their employees.

Capital resources

From a general view, financial capital is the funds necessary to grow and sustain a business. CEO takes financial capital to invest in not only tangible goods such as factories, machines, tools and other productive equipment to produce an output but also intangible resources such as marketing, employee training, etc.

No company can survive without having capital resources. Once a company has enough budget, they can easily launch their projects, expand its scale and even achieve impressive result. For instance, in 2010 **Coca Cola** – “the 84 biggest economy” spent 2.9 billion USD for marketing, which was more than that total marketing investment of Microsoft and Apple. It can be said that without the big investment and stable financial resource, Coca Cola success would not be guaranteed.

There are also several ways for an enterprise to maintain stable budgets by some resources such as investment opportunities, funding, and annual income.

Operational efficiency

The concept of operational efficiency encompasses the practice of improving all of your processes, which are all your company's activities leading to your final product or service.

Because Operational efficiency directly affects the company's success in the marketplace, a businessman needs to truly know his company's processes and follow them to discover whether they're being performed in the correct manner or not. Here are some suggestions for you to achieve this efficiency :

- Study the business situation
- Pay attention to product cost
- Map process failure and discover failure
- Use technology for better operation productivity

Organizational structure

To have a suitable organizational structure requires the owners have to consider carefully set up a system to work smoothly within the company. Whether it is a centralized or decentralized system, the most important thing is how effective the structure is when applied for the company. The heads of departments need to make sure that the information flow is widely conveyed to all customers. Suitable rules and regulations are being applied to ensure the benefits of employees, and the business as well.

Infrastructure

When you already have well-trained and motivated workers, an effective operational and organizational system, make sure that the infrastructure of the company are good enough for all your functions. With the modern and high quality facilities, stable power, internet and wifi connection, and so on your company is likely to perform better. In other words, the better your infrastructure, the more opportunities for your company to perform successfully.

Innovation

In the competitive marketplace and industrial revolution we are living now, no company can survive without upgrade new ideas and technology served overall success.

Fundamentally, innovation refers to the introduction of something new into your business with the ideas come from inside the business such as from employees, developers, managers or from the outside world like suppliers, customers, etc. Successful innovation can bring about productivity, cost reduction, higher competitiveness, brand value, turnover increase. In contrast, companies which fail to apply innovation will surely face the risks of losing market share to competitors, underlying profit loss and losing key staff.

Innovation is rewarding for your business only when you step by step start to holistically approach to innovation, plan and encourage innovation and spread investment for innovation in your business.

External factors

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Economic situation

Economy is one of the most determining factors to the success of the company even though it is an external element. Within the economy, some contributing factors such as the fluctuation of interest rate, economic crisis, and so on directly and strongly affects the consumption of buyers, and consequently, the profits of businesses.

No external factors affect business more than an economic condition, which is the present state of the economy. As the economy goes through expansion and contraction, its condition changes over time. Positive economy condition can be favorable for business development and adverse ones may generate negative consequences such as narrow down business scale, capital shortage or even bankrupt.

There are 7 factors that have direct impacts on business firm.

- Tax rate
- Exchange rate
- Inflation
- Labor
- Demand/supply
- Wages
- Recession

Laws

The rules and regulations from local government play an integral role in the development of the company. There are some countries which their laws prevents the development of some certain industries. That can be a threat to the company. On the other hand, some industries receive positive and continuous support from local government via their rules and regulations. Besides, if the laws allow organization outside the countries invest in local industries, they will indirectly create an enormous source of financial support for local business.

Technological factors

Artificial intelligence, smart internet searches, and other high tech functions- all kind of technology has been at the forefront of many business for ages. For instance, American Airlines started using a computerized flight booking system and Bank of America took on an automated check-processing system. No matter what the size of your enterprise is, both tangible and intangible benefits of technology are well-known.

Because it can help you generate profits and produce the results as your customers' needs. In particular, the culture, efficiency and relationships of a

business are obviously affected by technology infrastructure. Furthermore, it also exerts impacts on the security of confidential information and trade advantages.

Today it is so decisive to entrepreneurs that technology can be their best friend or worst friend depending on how it is used in the competitive digital business market.

Customer demands

One of the most fundamental factors we learn in economics is that satisfying customer demand is a must for every business survival. It is obvious that your product is served for the needs of customers then under any circumstance, your business can develop without following this mission. Beside to be the leading company entrepreneurs should not only identify but also tailor their customer's interest.

We all know that what people want, what people need, and what they demand are usually different from each other. Customers need something to communicate with their family member outside their countries, they want to a smartphone which can perform multi-function; however, they cannot afford that smartphone with a limited budget. Therefore, their demand is just a typical phone which can perform basic functions. If your company is not able to figure out what are your customer demands, you will face difficulty in how to make your products consumed by customers. (*Learn how to [build loyal customers](#) for your business*)

In the digital age, the face of customer's preference has changed dramatically under the influence of different factors. Having a complete understanding of these factors can help business man build up an effective strategy in producing and marketing process. Here are noticeable changes in customer demand:

- Quality is customer's preference than price
- Sales process is more and more under customer's control
- Customer's loyalty decrease
- The rise of middle-income customer spender
- Female consumption power
- Advancement of new technology

- Intergenerational consumption

There is a lot of legwork to be done to recognize customer's requirements and generate new trends in the marketplace. Basically, you should carry out research to determine what consumers' needs are, establish yourself as a leader in your industry and then repeatedly demonstrate your products' quality.

Competition

Competition exists in any field of our life, even in business. When it comes to competition, entrepreneurs may thrive to be successful or be hurt to lose its position in the marketplace.

For the good side, competition brings about innovation, better customer service, complacency, core market understanding and understanding of your own business- your strength and your weakness.

For the downside, if you are not prepared to change in competitive market, your company may be negatively influenced due to scaring investors, market expectations increase, competitive price and customer disloyalty.

Conclusion

In conclusion, there is a bunch of contributing factors the success of the company which comes from both outside and inside a business. Either outside or inside factors are of utmost importance for the development of the company. If a business hopes to perform smoothly and successfully, they need to take all these elements into consideration before making any decision