**CHAPTER FOUR**

**BUSINESS ENVIRONMENT**

**Concepts of Environment**

Business Environment can be seen as "Total Surrounding”. The totality of interaction between business and the society is called business environment. Conceptually, environment is the totality of the external forces that influence an individual or community. This is to say that an environment is composed of natural resources and men's modifications of them. Usually, there is interaction of managers and their subordinates with the internal environment inside the organisation, but managers must also deal with the outside environment.

The term society refers to the social environmental system whose members have cultural pattern and goals. Business is been associated with environment because a business organisation is a product of several environments. To survive, the organisation must adapt to its environment as changes occur. Since the organisation is a part of society, it is natural that the firm should be interested in the affairs of the society.

An environment is composed of those institutions or forces that affect the performance of an organisation, but over which the organisation has little or no control. These forces include suppliers, customers, government regulatory agencies, competitors, etc.

The environment - structure - relationship has received a large amount of attention (Chandler, 1962; among others). The reason for this attention is because organisations must adapt to and depend on, their environment if they are to succeed. Organisations, also, must identify and follow their environments, sense changes in those environments, and make appropriate adjustments as necessary. But changing environment produces uncertainty. Alterations in an organisation's structural components are a major tool that management has for controlling environmental uncertainty. The environmental imperative would, therefore, be that the extent of environmental uncertainty is the determinant of structure. If uncertainty is low, management will opt for a structure that will be most efficient and offer the highest degree of managerial control.

Environmental uncertainty and organisational complexity are inversely related. This is particularly true for departments within organisations. Those departments within the organisation that is most dependent on the environment, such as marketing or research and development, are typically the lowest in complexity.

Similarly, formalization and environmental uncertainty are inversely related; that is, certain and stable environments lead to high formalization because stable environments create a minimal need for rapid response, and economies of scale exist for organisations that standardize their activities. Centralization is also affected by the environment. If the environment is large and multifaceted, it becomes difficult for management to monitor. As a result, the structure tends to become decentralized for management to monitor. This explains why the marketing function in organisations is typically decentralized. If a firm has a large number of customers and clients and if the needs of those customers and clients are satisfied, this can be achieved by pushing key decisions down to the customer or client. Decentralization allows for more response.

Managers in some countries such as the United States, UK, etc., operate in a pluralistic society, with many organized groups representing various interests. Each group has an impact on other groups but no one group exerts an inordinate amount of power. Many groups exert some power over business.

Working within a pluralistic society has several implications for business. First, business power is kept in balance by various groups such as environmental groups. Second, business interests can be expressed by joining groups such as the chambers of commerce. Third, business participates in projects with other responsible groups for a better society. Fourth, in a pluralistic society there can be conflict or agreement among groups. Finally, in such a society one group is quite aware of what other groups are doing.

According to Lawal (1993) there is no universal categorization that encompassed all the items covered by business environment. Some of the factors in the environment include:

1. Economic
2. Technological
3. Social
4. Legal
5. Political
6. Competitive
7. Structure of the industry
8. Government regulations, etc.

It is sometimes thought that the economic environment is of concern only to business whose socially approved mission is the production and distribution of goods and services that people want and can pay for. But it is also of the greatest importance to other types of organized enterprises. For example, a government agency takes resources, usually from tax payers, and provides services desired by the public. A church takes contributions from its members and services their religious and social needs. A university takes resource inputs from tax payers, students and contributors of various kinds and transforms these into educational and research services, among others. According to Steiner (1969), the complexities of the economic business environment have led to the shortening of the life cycle of company products.

Also, almost every kind of organisation needs capital machinery, buildings, inventories of goods, office equipment, tools of all kinds, and cash. Some of this may be produced by the organisation itself as can happen when a business builds its own machinery or a church group prepares food items. Cash resources may also be generated within an organisation to buy capital items outside, as happens when business profits are used for this purpose.

Also, the input side of an organisation is affected by price changes. If the prices go up fairly rapidly, as happened in most parts of the world in the 1970's and early 80's, the turbulence created in the economic environment on both the input and output sides can be severe. Inflation not only upsets businesses but also has disturbing influences on any kind of organisation through its effect on cost of labour, material and other items.

Another important input from the economic environment is the availability, quality and prices of labour. In some societies, untrained labour may be plentiful, while highly trained labour may be in short supply. Engineers and other professionals in a country may be scarce at one time and plentiful at another.

The price of labour is also an extremely important economic input to an organisation. The relatively high wages in the United States and many European Countries often create cost problems for producers in these countries, unlike the relatively low wages in most of the developing countries Nigeria, Ghana, India, etc.

Another important input to an organisation is the nature of governmental fiscal and tax policies. Although these are, strictly speaking, aspects of the political environment, their economic impact on organisations is tremendous. Government control of the availability of credit through fiscal policy has considerable impact not only on business but also on most non-business operations. Similarly, government tax policy affects every segment of the society. The way taxes are levied is also important, not only to .business but to people generally. For example, if taxes on business profits are too high, the incentive to go into business or stay in it tends to drop and investors will be disenchanted to invest their capital and will look elsewhere to invest their capital.

One of the most important economic factors for the success of any organisation is customers and clients. Without them, a business cannot find out what people need, want and will buy. Non business organisations such as churches have clients. Also, universities and colleges have students and alumni to satisfy. Similarly, police, fire services, local government councils and health departments have clients to serve. Another economic factor of importance is the appearance of substitute products. For example, publishers of magazines saw their market eroded when advertisers shifted to television. Organisations are influenced by economic as well as non-economic factors in the environment. The principal ones are the attitudes, desires, and expectation of people, many of which arise from cultural patterns in the social environment.

One of the most pervasive factors in the environment is technology. It is science that provides knowledge and it is technology that uses it. The term technology refers to the sum total of knowledge we have of ways to do things which includes inventions, techniques, and vast store of organized knowledge about things. But it's main influence is on ways of doing things, on how we design, produce, distribute and sell goods and services.

The impact of technology is seen in new products, new machines, new tools, new materials and new services. Some of its benefits include greater productivity, higher living standards, more leisure time and a greater variety of products. Problems of technology include traffic jams, polluted air and water, shortage of energy and the loss of privacy through the application of computer technology, among others. The rate of technological change has increased in the past years making Meadows (1972) and Mishin (1971) to suggest that it should be slowed.

In any classification of environmental elements having impact on an organisation, it is extremely difficult to separate the social, political and ethical environment conceptually. However, the social environment is made up of the attitudes, desires, expectations, degree of intelligence and education, beliefs, and customs of people in a given group or society. The political and legal environment is primarily the complex of laws, regulations, and government agencies and their actions which affect all kinds of organisations to a varying degree. The ethical environment (which could be included as an element in the social environment) includes accepted and practised standards of conduct. The complexity of environmental forces makes it difficult for a manager to forecast social changes, social desires, and expectations, and social pressures give rise to laws and standards of ethics. Social forces (including ethics) normally arise before laws are passed. New technology can set in motion forces that in turn result in changes in social values. These value changes can be beneficial or threatening to business organisations (Steiner, 1975). Social attitudes, beliefs, and values include:

1. The belief that there are opportunities for people who arc willing and able to work to take advantage of them.
2. A faith in business and a respect for business owners and leaders.
3. A belief in competition and competitiveness in all aspects of life, but particularly in business.
4. A respect for the individual, regardless of race, religion or creed.
5. A respect for authority arising from ownership of property, expert knowledge, and elected or appointed political positions.
6. A belief in, and respect for, education.
7. A faith in logical processes, science, and technology.
8. A belief in the importance of change and experimentation to find better ways of doing things (including business processes).

The legal environment is related with the social environment. Laws are normally passed as the result of social pressures and problems. But in some instances, laws remain in the law books after the socially perceived need for them has disappeared. It is however, easier in contemporary business for plaintiffs to sue and get redress for legitimate grievances against manufacturers than ever before (Benson, 1972).

The attitudes and actions of political and government leaders and legislators change with social demands and beliefs. Government affects virtually any organisation and every aspect of life. In respect to business, it acts in two main roles: It promotes and constrains business by stimulating economic expansions and it is the biggest customer purchasing goods and services.

The society in general is regulated by laws, regulations and court decisions. Some are designed to protect workers, consumers, and communities. Others are designed to make contracts enforceable and to protect property rights. The government is one of the most significant influences on corporate operations (Steiner and Miner, 1977).

We are all part of many organisations; from simplest to the most complex. All organisations, regardless of size and purpose, have much in common. An organisation is the process of logically grouping activities, assigning authority and responsibility, and establishing working relationships that enable the company to work with maximum efficiency and effectiveness.

An organization can also be seen as a structured process in which individuals interact for their goals and objectives in a system of consciously co-ordinated activities of two or more persons. It is a vital instrument in any society. According to ICMA (1985), if organisations are to survive and grow, they must react to their changing environment in order not to run down (suffer entroy). An organisation will either be in a steady state (or homeostasis) or it will grow (i.e. achieve negative entropy) if the dynamic interaction with the relevant business environment is sustained.

**Business Environment: An Overview**

Kazmi (1999) stated that environment literally means the surroundings, external objects, influences or circumstances under which someone or something exists. While,.... ( ), view it as the aggregate of all conditions, events and influences that surround and affect an organization. Whatever is the exact definition of environment, it should be known that business environment" exhibits many characteristics, Kazmi (1999) identify them as:

* 1. **Complexity**: The business environment is complex because it is made up of a number of factors, events, conditions, and influences arising from different sources, which interact with each other to create entirely new sets of influences.
  2. **Dynamism**: The business environment is dynamic because it changes continuously due to the varied influences operating in it.
  3. **Multifaceted**: Different observers perceive the business environment differently. This is why a development that is a threat to an organization may be viewed as an opportunity by another.
  4. **Far-reaching impact**: The business environment has a far-reaching impact on the growth and profitability of an organization.

Because of the foregoing, it is important we look at the various factors that make up the business environment.

Kotler (1972) has described the firm in its environment as an ecosystem, comparing it to the study of ecology, which is concerned with the living organisms and their relationship to their surroundings.

Allen (1972) suggested that for: “An organism, to survive, has lo Incapable of adaptation- a process of change by which it modifies itself to a form better suited to the evolving environment”.

All organizations, unless totally introverted and therefore doomed lo suffer the fate of the dinosaur, must be sensitive to the environment and adapt to any relevant changes in it. This is so obvious that it hardly needs to be stated. The trouble is that most individuals and most organization resist changes, (Mclver and Mayor, 1986).

Thus, manufacturers/marketers/managers who focus their attention to existing products and pay little or no attention to the changing needs and wants of the market place are in danger of one day discovering that they have no customers.

Kotler (1995) agree with this by stating that a business unit has to monitor key macro-environment forces (demographic/economic, technological, political/legal and social/cultural) and significant microenvironrnent actors (customers, competition, distribution channels, suppliers) that will affect its ability to earn profits in the marketplace.While Achumba and Osuagwu (1994) added that the factors affecting the success or failure of any modern organization whether private enterprise or Government Corporation can be classified into three divisions, namely: internal factors, environmental factors; and intelligent management coupled, with sound management judgment.

Various authors have classified the business environment using various basis/factors, whatever is the classification criteria/basis they use, it should be noted that the business environment is made up of: the internal and the external environment and the major factors that make up these environment shall be discussed below.

**The Nature of Environment**

One of the main problems of strategic management is coping with uncertainty. But just how uncertain is the environment and why? And just how can a manager make a sense of the diversity of the environment in a way that can contribute to strategic decision making? Is the environment relatively static or does it show signs of change? In what ways is the environment changing? Is the environment simple or complex to understand? Johnson and Scholes (1999), provide 'a very useful framework for analyzing and understanding the nature of the corporate environment. In the framework, the environment is classified into three types as follows:

**Simple - Static Environments:** Here the environment is relatively straight forward to understand and not undergoing significant change. Technical processes are fairly simple and competition and markets are fixed over time, and there may be few of them. In such circumstances, if a change occurs, it is likely to be predictable, so it could make sense to analyze the environment extensively on an historical basis, perhaps as a means of trying to forecast likely future conditions. The simple-static environment corresponds to Emery and Trist's placid-randomized environment.

**Dynamic Environments:** Here, the environment is largely unpredictable. Thus, managers need to consider the environment of the future, not just of the past. This can be done intuitively or by employing more structured ways of making a sense of the future such as scenario planning. This corresponds to Emery and Trist's (1965) disturbed-reactive environments.

**Complex Environments:** Organisations in complex situations face an environment that is difficult to comprehend and at the highest level of uncertainty. They may also face dynamic conditions. The IT and electronics industries are in this situation of complexity .and dynamism. Complex environments correspond to Emery and Trist's turbulent fields. Complexity is difficult to handle by analysis. Complexity arising from diversity, size and environmental dynamism can be dealt with by ensuring that different parts of the organisation responsible for different aspects of diversity are separate and given the resources and authority to handle their own part of the environments. It could also be handled through the organisations strategic competence which may be developed based on its experience and what it has learned over time.

**Environmental Condition**

Simple Complex

* Historical analysis
* Forecasting

Scenario planning

Experience and Learning

Decentralisation of organisations

Static:

Environmental

conditions

Dynamic

*Approaches to making a sense of the environment (Adapted from Johnson and Scholes, 1999, p 101)*

**Environmental Scanning; Opportunities**

A major step in strategic management is the scanning of the environment (Certo and Peter, 1990). Environmental scanning is the process of gathering information about events and their relationships within an organisation's internal and external environments. Environmental scanning is different from environmental forecasting which is the process of determining what conditions will exist within an organisation's environment at some future time. Environmental scanning involves gathering, reviewing and evaluating whatever information about internal and external environments that can be obtained from several distinct sources on a regular basis and interpreting them in the light of the organisation's business sensing the pulse of environmental threats and opportunities is a normal and continuous process in strategic management. In many organisations, this sensing is done on an informal basis. Although obtaining valuable information through informal means is an attribute of good entrepreneurship, a total reliance on the informal approach increasingly exposes the firm to missed opportunities and unforeseen threats. Through scanning, firms identify early signals of potential changes in the general environment and detect changes that are already under way. Three types of environmental scanning systems have been identified by Falley and King (1977). They are:

1. **Irregular scanning systems** which consist largely of adhoc environmental studies. They emphasize short-run reaction to environmental crisis with little attention to future environmental events.
2. **Regular scanning systems**: These systems revolve around a regular review of the environment or significant environmental components. The focus of this scanning system is primarily retrospective but some thought is given to future conditions assumed to be evolving within the environment.
3. **Continuous scanning systems:** Here, the components of the organisational environment are constantly monitored. The scanning is an on-going activity for an established segment of the organisational structure. Continuous scanning tends to be more proactive or future oriented than either irregular or regular systems. The use of a continuous scanning system generally reflects a serious and sustained commitment to environmental analysis. In most organisations, environmental analysis evolves from an irregular system into a regular and then into a continuous scanning system.

A successful organisation is one that has found a useful way of survival within the larger environment. Policy-makers should be able to distinguish the degree of stability of an environment as identified by Emery and Trist (1957) thus:

1. **Stable Environment**: This is a situation where the major forces and institutions in the environment remain stable over a long period of time. In this type of environment, the occurrence of change can be predicted and measures taken to contain it.
2. **Slowly Evolving Environment**: This is where smooth fairly predictable changes take place. An organisation survives in this type of environment to the extent that it foresees changes and takes intelligent steps to adapt to the changes.
3. **Turbulent Environment**: This is a situation where major and unpredictable changes occur. The Nigerian business environment is characterized by turbulence.

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**Environmental Considerations for Business Policy**

Environment literally means the surrounding, external objects, influences, or circumstances under which someone or something exists. The environment of any organisation is the aggregate of all conditions, events and influences that surround and affect it. Since the environment influences an organisation in many ways, its understanding is of crucial importance to business policy and strategy. It is important for policy-makers to study the dictates and influences of these environmental factors so as to determine the opportunities and the various problems which the organisation might face. The concept of environment can be understood by looking at some of its characteristics.

**Characteristics of the Business Environment**

There are five major characteristics of the business environment. These are:

1. **Complexity**: The business environment consists of a number of factors, events, conditions and influences arising from different sources. All these interact with one another to create new sets of influences on corporate policy and strategy. The interaction is complex.
2. **Dynamism**: The business environment is constantly changing in nature. Due to the many and varied operating influences, there is dynamism in the environment causing it to continuously change its shape and character.
3. **Uncontrollability**: Most of the forces and institutions in the external environment are beyond the control of the organisation. This means that environmental factors are uncontrollable. It is full of complexities, fluidity, uncertainties and instability.
4. **Multi-facetedness**: What shape and character an environment assumes depends on the perception of the policy-maker. A change or new development in the environment may be viewed differently by different observers, especially where such new development is seen as an opportunity by one company while another company perceives it as a threat.
5. **Far-Reaching Impact:** The growth and profitability of an organisation depends critically on the environment in which it exists. Any environmental change will impact on the organisation in several different ways.

The business environment could be either internal or external. Internal environment includes all factors within an organisation, which impact strengths or cause weaknesses of a strategic nature, while the external environment include all the factors outside the organisation, which provide opportunities or pose threats to the organisation. The environment in which an organisation exists can therefore be described in terms of the opportunities and threats operating in the external environment apart from the strengths and weaknesses existing in the internal environment. The strengths, weaknesses, opportunities and threats in the environment can be discerned through the mechanics of SWOT analysis. SWOT is an acronym which means Strength, Weakness, Opportunities and Threats.

A systematic approach to understanding the environment is crucial for the existence, growth and profitability of an organisation. Such as approach is the SWOT analysis used for formulating effective policies and strategies that capitalize on the opportunities, through the use of strengths, and neutralize the threats by minimizing the impact of weaknesses. The external and internal environments relevant for corporate policies and strategies are discussed below.

**The External (Business) Environment**

The external environment of a business organisation is the pattern of all the external conditions and influences that affect, and /or relate to, its life and development. These factors include technological, social, competitive, economic, physical, and political factors.

* **The Technological Environment**; This consists of those factors related to knowledge applied in the production process, inventions, methods and ways of doing things, procedures and innovations, plus the materials and machines used in the production of goods and services. Such factors have an impact on business policy and decision-making in an organisation on communication, infrastructural and managerial technologies, policy-makers in corporate organisations must take cognizance of the technological environment, since technology, customer groups, and customer function, define the business of the organisations. Technological change can lead to relative competitive cost positions within a business; it can create new markets and new business segments; and it can collapse or merge previously independent businesses by reducing or eliminating their segment cost barriers. Technological developments include the discoveries of science and arts, the impact of related product development, machine and process improvements, the progress of data processing, and the application of sciences, ideas and knowledge to industry and commerce. Technology, in its best form, is the application of the knowledge of science and art in solving problems of a given community.

There has been an accelerated pace of technological development in recent years. This had led to unlimited innovational opportunities, and new product development. Business policy formulation must be able to envisage how technology can meet human needs which have created business opportunities.

* **The Social Environment**: The Social environment consists of factors related to human relationships and the bearing of such relationships on business. Factors and influences relevant in the social environment include:

1. ***Demographic Characteristics***: These include population, its density and distribution, changes in population, age groups, migration, etc. The demographic structure could reveal the size of the market, and the potential consumers and customers of the business which constitute business opportunities.
2. ***Family Structure***: This refers to the attitudes towards and within the family, values attached to the family, and changes in the family structure.
3. ***Social Concerns***: These refer to the social responsibility attached to the organisation, such as environmental pollution, use of the mass media, consumerism, etc.
4. The function of children and adolescents in the family and society, and also the role of women in bringing up children and intervening in crisis, must have policy attention.
5. Social attitudes, motives, customs, beliefs, and the effects that such factors have on buyer behaviour and educational levels, conduct of workers, and many more, are part of the social factors.

The social environment plays a major role in the attitude and values attached to a product or service because this is where people with spending power are predominant. Social changes might be slow or rapid and, in some cases, the impact is felt immediately, while, in others, the impact is not immediate, but, on the long run, such impacts on policy and strategic decisions cannot be overemphasized.

The social developments which business policy should address are: the changing composition of the population, urbanization, the changing patterns of work, leisure, etc. Changing societal values will lead to different expectations of the role that business should perform. Business will be expected to perform its mission not only with economy in the use of resources, but also with sensitivity to other environments.

* **The Economic Environment**: The close interaction of business with the economic environment is hardly surprising, since one of the objectives of business is to create economic activity. The economic structure of a country (capitalist, socialist, or mixed economy), the privatization or commercialization of business enterprises, economic planning system, economic policies (e.g. fiscal and monetary policies), indices (e.g. national income, per capita income, disposable income), and infrastructural factors (such as financial institutions), are various economic factors which the management of an organisation has to evaluate.

The environment or corporate policy and strategy could be either internal or external. Internal environment includes all factors within an organisation which impart strengths or cause weaknesses of a strategic nature, while the external environment includes all the factors outside the organisation which provide opportunities or pose threats to the organisation. The environment in which an organisation exists can therefore be described in terms of the opportunities and threats operating in the external environment, apart from the strengths and weaknesses existing in the internal environment. The strengths, weaknesses, opportunities and threats in the environment can be discerned through the mechanics of the *SWOT analysis.*

A systematic approach to understanding the environment is crucial for the existence, growth and profitability of an organisation. Such an approach is known as the SWOT analysis and is used for formulating effective policies and strategies that capitalize on the opportunities through the use of strengths and neutralizes the threats by minimizing the impact of weaknesses. External and internal environments relevant for corporate policies and strategies are discussed below.

**The External Business Environment**

The external environment of a business consists of a large number of factors like international and local economy, technology, natural factors, political systems, etc. Depending on such factors as size of the organisation,level and scope of business activities, the market area, nature of products, etc., the relevant environment (i.e. environment with high strategic relevance) could be classified as follows:

***Raw materials:*** This is connected to the availability, or lack, of natural resources of which there is an unending or infinite supply. For example, water, sand, air, and so on, are needed for agricultural production. The finite natural resources, on the other hand, can be exhausted through continued consumption, but they are renewable. Therefore, there is continuous availability to manufacturers and companies. Such primary resources as coal, petroleum and iron provide significant impetus to production and facilitate production at full capacity.

***Social environment:*** The social environment consists of factors related to human relationships and the bearing of such relationships on business. Factors and influences relevant in the social environment include:

* 1. Demographic characteristics, such as population, its density and distribution, changes in population, age groups, migration, etc.
  2. Family structure, which refers to the attitudes towards and within the family, values attached to the family, and changes in the family structure.
  3. Social concerns, which are the social responsibilities attached to the organisation, e.g. in relation to environmental pollution, use of the mass media, consumerism, etc.
  4. The function of children and adolescents in the family and society, and the role of women in bringing up children and intervening in crises.
  5. Social attitudes, morals, customs, beliefs and the effects of such factors on buyer behaviour and educational levels, conduct of workers, etc.

The social environment plays a major role in the attitude and values attached to a product or service because this is where people with spending power are predominant. Social change might be slow or rapid. In some cases its impact is felt immediately while in others it is not. However, on the long run, such impacts on policy and strategic decisions cannot be over-emphasized.

***Economic environment:*** The close interaction of business with the economic environment is hardly surprising since one of the objectives of business is economic. The economic structure in a country (e.g. capitalist, socialist or mixed economy), economic planning policies (e.g. fiscal and monetary policies), indices (e.g. national income, per capita income, disposable income), and infrastructural factors (such as financial institutions) are some of the economic factors which the management of an organisation has to evaluate. How much is saved and invested in the country will have an effect on the spending power of its population. The value of imports and exports and the economic situation prevailing in a country also have a far-reaching impact. For example, a depressed economy might pose problems for the managers of an organisation, if they don't take time to analyze the factors predominantly responsible for that.

***Technological environment:*** This consists of those factors related to the knowledge applied, plus the materials and machines used in the production of goods and services. Such factors have an impact on the business policy and strategy in an organisation, and include technological development, communication, infrastructure and managerial technology. Organisational strategists can ill-afford to ignore the technological environment since technology, customer groups and customer function define the business of organisations.

The implications of technological change include the following:

* It can change relative competitive cost positions within a business,
* It can create new market and new business segments,
* It can collapse or merge previously independent businesses by reducing or eliminating their segment cost barriers.

***Market environment:*** Factors related to the groups and other organisations that compete with and have an impact on an organisation's markets and business are found in the market environment. Some of such factors include needs, preferences, attitudes and values of customers, product factors - demand, price, promotion, etc. The channels of distribution, delivery system, customer services and competitors can all influence the market environment. The type of predominant structure is one of the factors on which the market environment depends. In monopolies and oligopolies, concern for the market environment is lesser than what obtains under pure competition.

***Supplier environment:*** The supplier environment consists of factors related to the cost, reliability and availability of factors of production or service that have an impact on the business of an organisation. The cost and availability of raw materials, finance, energy, human resources, plants and machinery and substitutes should all be considered when analyzing the supplier environment. Most companies lay great emphasis on this environment, which therefore occupies a dominant position in corporate strategy formulation.

***Regulatory environment:*** This includes the planning, promotion and regulation of economic activities by the government that has an impact on corporate businesses. Factors operating in this environment include policies related to imports and exports, distribution, pricing and its control, licensing, monopolies, foreign investments and environmental pollution. The constitutional framework, derivative principle, and division, of legislative powers between tiers of governments should be considered for organisational policies and strategies.

**Internal Environment**: The resources, behaviour, strengths, weaknesses, synergy and distinctive competences constitute the internal environment of an organisation.

An organisation uses different types of resources, and the combination of these different resources produces synergy or dysergy within an organisation, which leads to the development of strengths or weaknesses over a period of time. Organisational capability in the design and implementation of corporate policy and strategy rests on an organisation's capacity and ability to use its distinctive competences to excel in a particular field. Some of the internal environments of an organization include:

* 1. ***Organisational resources:*** These are the physical and human resources used as inputs by an organisation to create outputs in the form of products and services through a transformation process. Most organisations engage different types of resources such as money, facilities, systems, knowledge, materials and people. The cost and availability of resources are the most important factors on which the success of an organisation's policy and strategy depends.
  2. ***Organisational behaviour:*** This is the manifestation of the various forces and-influences operating in the internal environment of an organisation that create the ability, or place constraints on the usage of resources. Organisational behaviour results in the development of special identity and character of an organisation. Such important factors that influence organisational behaviour include management philosophy, quality of leadership, shared values and culture, organisational politics, etc.
  3. ***Strengths and weaknesses:*** The strength of an organisation gives it a comparative advantage over other competitors in the same industry while weakness does the opposite. When we consider functional areas within an organisation, i.e. finance, marketing, etc., it is important that the organisation should develop its strengths in such areas since any form of weakness (e.g. production) might result in obsolete plants or machinery, and uneconomical operations which are a waste of scarce and limited resources.
  4. ***Synergistic effects*:** Synergy is an idea that the whole is greater or lesser than the sum of its parts within an organisation (2 x 5 > 2 + 5). We could have a situation where attributes do not add up mathematically but combine to produce an enhanced or reduced impact (i.e. synergistic effect). Synergistic effects can occur in a number of areas, such as marketing, distribution and promotion, which support each other, resulting in a high level of marketing strategy. Marketing inefficiency, on the other hand, reduces production efficiency, the overall impact being negative, in which case dysergy (negative synergy) occurs. Therefore, synergistic effects are an important factor in the determination of the quality and type of internal environment existing within an organisation.
  5. ***Distinctive competence*:** The net result of the disadvantages and advantages that exist for an organisation determines its ability to stand up to competitors. A distinctive competence is any advantage a company has over its competitors because it can do something which they cannot, or do something better than they can. This concept is useful for strategy formulation because of the unique capability it gives an organisation to capitalize on an opportunity, as well as the competitive edge which it provides. Many Nigerian organisations have achieved strategic success by building distinctive competences around critical success factorsgeneral, it is essential for an organisation to inter-relate in harmony with its internal and external environments. There must be an effective coordination of the two environments so that all resources of the organisation will be efficiently utilized. The effect of the external environment is that it guides the company in carrying out its activities. In other words, resources are used without harmful effects, prices of products are controlled and coordinated, and there is competition in the markets, which enhances technology and quality of products. The effect of the internal environment is that staff are well trained and developed to their fullest potentials, strengths and weaknesses are properly analyzed and there is good synergy between the different areas of corporate activities. The distinctive advantage or competence of an organisation, if well managed, leads to effective and efficient design and implementation of corporate policies and strategies.

**Business and the Environment**

The interrelationship between business and society is of enormous significance, for a number of reasons:

* 1. Business is a major institution in society. In addition, business is evena dominant institution in society.
  2. Business has a strong impact on other institutions and actions in society.
  3. What goes on in society has a pervasive influence on business, andbusiness is sensitive and must be sensitized to events in society,
  4. The importance of business to society can be traced to the industrialrevolution, and its impact on society,
  5. Business institutions have created the productive machines that turnout goods and services,
  6. As managers and potential managers, we must be conscious of thefact that the success of our enterprises depends upon the way we canadjust to the environment.

**What is the nature of the issues in business-environment relationship?**

The issues cover a vast range of events. For example:

1. To what extent is government regulation of individual businesses inthe public interest?
2. Should we make efforts to slow down economic growth and technological advance in order to solve pollution problems and conserve limited natural resources?

**Internal Environmental Factors**

This consists of all the factors within an organization, which impart strengths or cause weaknesses of a strategic nature. Strength is an inherent capacity, which an organization can use to gain strategic advantage over its competitors while a weakness is an inherent limitation or constraint, which creates a strategic disadvantage (Kazmi, 1999).

Ifechukwu (1986) added that the internal environment consists of those physical and socials factors within the boundaries of an organization that are taken directly into consideration in the decision-making behaviuor. In his view, these factors include; specific technologies utilized by component units of the organization, the size, types and quality of personnel, its administrative units, organizational goals and objectives and the nature of the organization's product/service.

Kazmi (1999) further stated that the resources, behaviour, synergy, strengths and weaknesses, and distinctive competence of an organization determine the nature of its internal environment. In his view,

* Organizational resources are the physical and human resources used as inputs in the organization to create outputs in the form of products and services through a transformation process.

Organizational behaviour is the manifestation of the various forces and influences operating in the internal environment of an organization that create the ability of, or place constraints in, the usage of resources.

* Strength is an inherent capability, which an organization can use to gain strategic advantage while a weakness is an inherent limitation, or constraint, which creates a strategic disadvantage for an organization.
* Synergy is an idea that the whole is greater than the sum of its part, i.e. 2+2=5.
* Distinctive competence is a specific ability possessed by a particular organization exclusively or in relatively large measure.
* Organizational capability is the inherent capacity or potential of an organization to use its strengths, and overcome its weaknesses in order to exploit opportunities and face threats in its external environment, it is measurable and comparable. Organizational capability factors include; financial, marketing, operations, personnel, and general management capabilities.

In a nutshell, internal factors refer to those factors over which managers have control over, at least in the short run, in that they can initiate action within the firm to pursue a decided course of action leading to the attainment of desired goals and changes in the firm's structure and operational activities. For example, they have control over such matters as asset composition, marketing method, product mix, organizational structure, etc. Achumba and Osuagwu, (1994). But Adeleye (1998) said that the internal environment consists of the different departments that interact with the marketing department,' thereby affecting the entire organization's transactions with its target market.

This simply means that in Nigeria, when establishing a firm, one has to take into consideration: the organic business functions, namely marketing, personnel, marketing and finance. The organization has to work as a system. For example, marketing managers must consider other departments when making marketing plans and designing the marketing mix and other policies. They also have to seek the approval of the marketing plans by top management before implementing them. So also should all the managers of other departments consider marketing plans and policies before formulating theirs, this is necessary to minimize organizational conflict and maximize organizational harmony.

**External Environmental Factors**

The external environment is made up of all the factors outside the organization, which provide opportunities or pose threats to it. An opportunity is a favourable condition in the organization's environment, which enables it to consolidate and strengthen its position while a threat is an unfavourable condition in the organization's environment, which creates a risk for, or causes damage to, the organization (Kazmi, 1999).

Each of these environmental factors is discussed below.

**Political/Legal Environment**

Management decisions are strongly affected by development in the political environment. This environment is composed of laws, government agencies, and pressure groups that influence and limit various organizations and individuals in society. It is also made up of factors related to the planning, promotion, and regulation of economic activities by the government; and management of public affairs and their impact on Lie business of the organization. (Kazmi, 1999; Kotler, 1995).

The political, legal and regulatory forces of the business environment are closely interrelated. Legislation is enacted, the courts interpret legal decisions, and regulatory agencies are created and operated, for the most part, by persons elected or appointed to political offices or by civil servants. Legislation and regulations (or the lack of them) reflect the current political outlook. Consequently, the political forces of the business environment have the potentials to influence management decisions and strategies.

Legislation affecting business has steadily increased over the years. A number of laws influence business decisions and activities. This is why nations are rapidly passing laws to promote and regulate an open market economy,

Nigeria has many laws on its books covering such issues as competition, product safety and liability, [air trade and credit practices, packaging and labeling and so on.

In Nigeria the political environment affects business in the following ways: -

1. Government controls the quality of products being offered for sale in Nigeria. To this end, the .Nigerian Standard Organisation (NSO) was established by decree 56 of 1971, The Decree spells out main functions of the NSO viz: to standardize methods and products in industries throughout Nigeria and to ensure compliance with government policy on standardization.
2. The former military administration in the early 1990s promulgated a decree compelling advertisers of tobacco products to state, that “the federal ministry of health warns that tobacco smoking is dangerous to health”.
3. In Nigeria, the Income Tax Relief Act of 1958, as amended by decree No. 22 of 1971, provides relief from income tax during the early years for companies operating in industries, which the government considers as having favourable prospects of growth in Nigeria, and assistance, which will be in the public interest. Also, the Companies Income Tax Act of 1961 makes for an accelerated depreciation of companies assets, by reducing the amount of taxes that companies pay to government and the payback period of capital expenditure.
4. Granting of loans through government owned banks such as Nigeria Industrial Development Bank and Nigeria Bank for Commerce and Industry, and the small-scale industry loans schemes of stales governments.
5. Establishment of Industrial research organizations like Project Research and Development Organization at Enugu and the Federal Institute of Industrial Research at Oshodi that normally investigate the development of raw materials and new products within the country.
6. The government also regulates the salary of civil servants. An example is the Abubakar's Salary which was paid to civil servants as from September 1998.

Thus, it is necessary for managers to have a good working knowledge of the major laws protecting competition, consumers, and society. They should also realize that the number and power of public-interest groups have increased during the past three decades. Political Action Committees (PACs) lobby government officials and pressure business executives to pay more attention to consumer rights, women's rights, senior citizen rights, minority rights, and so on.

**Business/organisation environment** represents the set of forces and conditions that operate beyond an organisation's boundaries but affect a manager's ability to acquire and utilise resources (Jones and George, 2008)

**Resources** in the organisational environment include the raw materials and skilled people that an organisation requires to produce goods and services, as well as the support of groups, including customers who buy these goods and services and provide the organisation with financial resources.

**Business environment** consists of the surrounding factors that either help or hinder the development of business (Nickels, McHugh, McHugh, 2005).

Furthermore, the **environment of business** according to Gatewood, Taylor and Ferrel; (1995) is referred to as all those factors that affect the operation of the organisation. It is inherently complex, with many individuals and groups affecting the firm.In practice, many of these factors are constantly changing and difficult to control, and however, this should not allow any manager to ignore them. Managers must learn to perceive the environment accurately so as to deal effectively with these factors.

**Classifications of Business Environment**

A business environment can broadly be classified into two(2), these are:

Internal, and External Enviroment.

**Internal Environment** - Consists of conditions and forces within the organisation. Furthermore, internal environment constitutes everything inside the firm that might affect the ability of entrepreneurs/managers to purse certain actions or strategies.

An organisation internal environmentrefers to factors within an enterprise (such as employees, structure, policies, and rewards) that immediately influence how work is done and how goals are accomplished (Ivancevich, et al, 1994).

The internal environment includes theorganisation of the firm (i.e, its structure, cultures, controls, and incentives), employees of the firm (i.e, its human capital), and resources of the firm (i.e, its tangible and intangible assets).

In addition, the internal environmentincludes the day-to-day forces within the organisation in which managers perform their functions. Such internal environment also identifies the settings where managers work, the day-to-day activities that utilize much of managers' time and some generalized skills necessary to cope with the internal environment (Donnelly, Gibson, and Ivancevich, 1995).

In summary, internal environmentrepresents the general conditions that exist within an organisation.

Generally, an organisation's internal environment consists of the following as noted by Griffin (1999):

* **Owner** - is anyone who can claim property rights on an organisation,
* **Board of directors** - is the governing body elected by a company's stockholders and charged with overseeing the general management of the firm to ensure that it is being run in a way that best serves the stockholders' interests,
* **Suppliers** -are organisations and individuals that provideresources for other organisation.

Since all organisations require resources, e.g. funds, energy, equipment, services, and materials, etc to produce a product or service that succeeds in the marketplace, suppliers are individuals and/or organisations that provide these resources.

* **Customer** - is anyone who pays money to acquire an organisation's products or services. Furthermore, customersare individuals, groups or organisations that buy the goods and services that an organisation produces.
* **Regulator** *-* is a unit that has potential to control, legislate, or otherwise influence the organisation's policies and practices.
* **Substitutes** - are goods or services that may be used in place of those furnished by a given business.
* **Distributors** - are organisations that help other organisations to sell their goods or services to customers.
* **Competitors** - are organisations that produce goods and services similar to a particular organisation's goods and services. In other words, competitors are organisations vying for the same customers.

Competitors can be divided into two (2), these are:

* **Intratype competitors** - are companies that produce the same or similar products/services as the organisation, and
* **Intertype competitors** - are distinctly different and competing organisations.

In a nutshell, competitoris an organisation that competes with other organisations for resources. Also, competitors are other organisations that either offer or have a high potential of offering rival products or services.

In addition, competition can take any of the following forms:

* Desired or generic competition,
* Product form competition,
* Industry or Enterprise competition, or
* Natural competition.

**Desired or Generic Competition -** consists of product that can satisfy the same basic needs of the consumers. Examples of this are water, tea.

**Product Form Competition -** represents different products satisfying the same needs of the consumers, e.g. soft drinks.

**Industry/Enterprise Competition-** means competition within the same industry, e.g. P.Z, Lever brothers, etc.

**Natural Competition** - here, the entrepreneur is competing with other needs of the environment. On the overall, entrepreneur can determine whether or not the competition is intense.

**Interest group** - is a group formed by its own individual members in an attempt to influence business.

**Strategic Partner or ally** - is an organisation working together with one or more other organisations in a joint venture or similar arrangement.

**Potential new competitors** - are firms not currently operating in a business industry but which have a high potential of entering the industry.

**General Environment**- are broad environmental forces which may have an impact on a firm even though their consequences may not be apparent or the effect may not be immediate. The major forces in the general environment are:

* 1. economic forces,
  2. technological forces,
  3. sociocultural forces,
  4. demographic forces,
  5. political - legal forces, and
  6. International forces.

**Economic forces:** represent and affect the overall health and vitality of the economic system in which the organisation operates. They can also affect the general health and well-being of the country. Particularly important economic factors for business include: general economic growth, inflation, interest rates, unemployment, etc

Furthermore, economic forces produce many opportunities and threats for entrepreneurs/managers. Low levels of unemployment and falling interest rates (for example) give more people more money to spend and as a result, organisations have an opportunity to sell more goods and services.

Also, good economic times affect supplies, resources become easier to acquire and organisations have an opportunity to flourish.

In contrast, poor economic conditions pose a major threat because they limit entrepreneurs/managers' ability to gain access to the resources their organisations need. Also, poor economic conditions make the environment more complex and entrepreneurs/managers’ jobs more difficult and demanding.

**Technological Forces -** Technology is the combination of tools, machines, computers, skills, information, and knowledge that managers use in the design of product, and distribution of goods and services (Jones, & George, 2008)

Technology**,** from the viewpoint of Griffin (1999) is referred to as the methods available for wrting resources into products or services. It is also rufared to as the knowledge and process of changing inputs (resources, labour, money) to outputs (goods and services).

Technologymeans everything from phones and copiers to computer, medical imaging devices, personal digital assistants, and the various software programmes that make business processes more efficient and productive (Kirkpatrick, 2003).

**Technological element** in the mega environment reflects the current state of knowledge regarding the production of products and services (Bartol and Martin, 1998)

**Technological forces** are outcomes of changes in the technology that managers use to design, produce, or distribute goods and services. Technological forces can have profound implications for entrepreneurs/managers

Technological change can make established products obsolete or outdated. Although technological change can threaten an organisation, it also can create a host of new opportunities for designing, making, or distributing new and better kinds of goods and .services, hence, entrepreneurs/managers must move quickly to respond to such changes if their organisations are to survive andprosper.

Thus, an understanding of a business technology component can have an important impact on its profitability and growth,

**Socio cultural forces** - are pressures emanating from the social structure of a country or society or from the national culture.

**Social structure** is the arrangement of relationships between individuals and groups in a society while **national culture** is the set of values that a society considers important and the norms of behaviour that are approved or sanctioned in that society.

Also, social cultural forces include the attitudes, values, norms, beliefs, behaviour and associated demographic trends that are characteristics of a given geographical areas.

**Socio cultural forces** from business angle can also beviewed as the customs, norms, values, and demographic characteristics of the society in which the organisationfunctions.Socio cultural processes are important because theydetermine the products, serving, and standards ofconduct that the society is likely lie.

Thus, individual entrepreneurs/managers and organisations must be responsive to changes in, and differences among, the social structures and national cultures of all countries in which they operate.

**Demographic Forces** - are the outcomes of changes in, or changing attitudes toward the characteristics of a population, such as age, gender, ethnic origin, race, sexual orientation/ and social class.

Like the other forces in the general environment, demographic forces present entrepreneurs/managers with opportunities and threats and have major implications for organisations.

**Political and legal forces** - consists of the government rules and regulations that apply to organisations. It also includes the legal systems within which an organisation must function. Trends in legislation, court decisions, politics, and government regulation are particularly important aspects of the legal-political environment.

**International Forces:** include the developments in countries outside an organisation's home country that have the potential to influence the organisation.

Essentially, and on the overall, there are four (4) components of an external environmental analysis as noted by Gomez-Mejia, Balkin and Cardy (2005), these are:

* 1. Scanning,
  2. Monitoring,
  3. Forecasting, and
  4. Assessing.

**(a)Scanning** - is the analysis of general environmental factors that may directly or indirectly be relevant to the firm's future. The primary objective of scanning is to identify early signs of emerging trends and changes in the environment that may result in an opportunity or threat

**(b)Monitoring** - Is observing environmental changes on a continuous basis to determine whether a clear trend is emerging. Monitoring can reduce the level of uncertainty by keeping them aware of such events as currency stability, lower inflation, savings rates, etc.

**(c)Forecasting** - Is predicting what is likely to happen in the future, the intensity of the anticipated event, its importance to the firm, and the pace or time frame in which it may occur.

**(d) Assessing** - is evaluating the environmental data received to study the implications for the firm.

**Characteristics of Environment**

1. Environment is complex.
2. Environment has multi dimensions.
3. Environment is not static, i.e, it is dynamic.
4. Environment affects business strategies.
5. Environment is only partially controllable.
6. Environment has a far-reaching impact.
7. Environment is multi-faceted, etc.

**Models of Organisation Environment**

According to Hall (1987), there are two (2) major views or models of the organisation -environment interface, these are: Population ecology model and Resource dependence model.

**Population Ecology Model** - Is a view that focuses on populations or groups of organisations and argues that environmental factors cause organisations with appropriate characteristics to survive and others to fail. This model is sometimes referred to as the Natural Selection Model**.**

In addition, in the population ecology view, organisational survival is largely due to fortuitous circumstances in which particular organisational forms happen to Tit particular environmental conditions.

Since organisations generally do not change rapidly, according to this view, entrepreneurs/managers have limited capacity to affect the fates of their organisations.

**Resource Dependence Model** - is a view that highlights organisational dependence on the environment for resources and argues that organisations attempt to manipulate the environment to reduce that dependence.

In the resource dependence view**,** no organisation can generate internally all the various resources (such as financing, materials, and services) it needs to operate effectively. For example, some firms purchase many of their inputs from outside, rather than making them internally. By forming relationships with other organisations, an organisation can solve many of its own resources problems.

However, such inter-organisational relationships create dependence on the other organisations and reduce the flexibility that a given organisation has in making its own decisions and taking its own actions, hence, organisations attempt to be as independent as possible by controlling as many of their critical resources as they can or developing alternative sources.

**How Environments Affect Entrepreneurial Firms**

Two (2) key issues/concepts need be addressed in analyzing the environmental situation faced by a firm or how environments affect firm, these are:

* + Environmental uncertainty, and
  + Environmental munificence.

**(a) Environmental Uncertainty** - Is a condition in which future environmental circumstances affecting a firm cannot be accurately assessed and predicted (Pfeffer and Salancik, 1978)

Besides, the more uncertain a firm's environment, the more time and effort entrepreneurs/managers must expend in monitoring it, assessing the implications for the firm and deciding what present and future actions to take.Also, the degree of environmental uncertainty is a function of two (2) major factors as noted by Dess and Beard (1984), these are: environment complexity, and environment dynamism.

**Environment Complexity** - means the number of elements in a firm's environment and their degree of similarity.

Here, environments in which there is a relatively small number of similar items are said to be *homogeneous***.** In contrast, environments in which there are a large number of dissimilar items are considered to be *heterogeneous***,** (Bartol and Martin, 1998).As the elements in the environment become more *heterogeneous***,** managers/entrepreneurs have more variables with which they must contend.

**Environment Dynamism -** refers to the rate and predictability of change in the elements of an organisation'senvironment.

Here, environments in which the rateof change is slow and relatively predictable are considered to be stable. Conversely, environments in which the rate of change is fast and relatively unpredictable are said to be **unstable.**

As elements in the environment become more unstable, they present greater challenges to entrepreneurs/managers (Bartol and Martin, 1998).

Basically, the concepts of complexity and dynamism can be used to make an overall assessment of the degree of environmental uncertainty. Such an assessment can be done by analysing the important elements in the task environment and the majorinfluence in the mega-environment

**Environmental Munificence:** Is the extent to which the environment can support sustained growth and stability (Dess and Beard, 1984).

Furthermore, environmental munificencecan range from relatively rich to relatively lean; depending on the level of resources that are available to the organisation within the environment (Castrogiovanni, 1991)When firms operate in rich environments, they are able to build up a cushion of internal resources, such as capital, equipment, and experience. A high level of internal resourcescan subsequently fund the innovations and expansions that may help a firm sustain its position, as well as weather leaner times. Unfortunately, rich environments eventually tend to attract other firms.

**How Firms Can Adapt to Their Environments**

Managers/entrepreneurs essentially have three (3) major options on how their firms can adapt to their environment as noted by Kotter (1979), these are:

* adaptation,
* favourability influence, and/or
* domain shifts.

**Adaptation** - is an approach that involves changing internal operations and activities to make the organisation more compatible with its environment.

This approach essentially accepts the existing environment as given and seeks to develop some rational process for adjusting to it.Here, four (4) common methods can be used by firm in order to adapt to environmental fluctuations, these are:

* 1. buffering,
  2. smoothing,
  3. forecasting, and
  4. rationing.

(i) **Buffering** - Involves stockpiling either inputs into outputs from a production or service process in order to cope with environmental fluctuations.

There are two (2) categories of buffering, these are:

(a) Buffering by stockpiling inputs, and

(b) Buffering by maintaining inventories of finished products.

(a) **Buffering by stockpiling inputs:** is used when it is difficult to line up reliable sources of inputs such as supplies.

(b) **Buffering by maintaining inventories of finished products:** is used when wide fluctuation in market demand make it difficult to produce outputs efficiently as they are ordered. For example, during Christmas and new year celebrations, demand for many consumables like wines, beer, rice, vegetable oil and others increase, marketers of these items usually stockpile to meet the demand upsurge or increase,

However, buffering is not always feasible or ideal because of high expense, perishability of materials, or the difficulty of stockpiling services, such as customer service in a restaurant. In addition, substantial buffering of inputs and finished products can lead to obsolescence before the items are used or sold.

(ii) **Smoothing** - While buffering seeks to accommodate market fluctuations, smoothing involves taking actions aimed at reducing the impact of fluctuations, given the market.

(iii) **Forecasting** - Is the process of making predictions about changing conditions and future events that may significantly affect the business of a firm.

(iv) **Rationing** - means providing limited access to a product or service that is in high demand. By rationing, a firm can avoid having to expand capacity to meet a temporary upward swing in demand, this is advantageous since many costs associated with capacity expansion (e.g extra plants, equipment or classroom building) continue during downward demand swings.

Rationing is also used when demand exceeds forecasts or when new production expands slowly (e.g. because of heavy costs and considerable risk if forecasted demand does not materialise).

However, rationing does have a major disadvantage, that is, it denies a consumer a product or service, also, thefirm is turning away potential business.

**Favourability Influence** - This approach involves attempting to alter environmental elements in order to make them more compatible with the needs of the firm.

Rather than accepting environmental elements as given, this approach specifically holds that, at least, some aspects of the environment can be changed by the firm in advantageous ways. The major methods that firms can use in attempting to influence significant environmental elements as identified by Kotter (1988) include:

* 1. Advertising and public relations,
  2. Boundary spanning,
  3. Recruiting,
  4. Negotiating contracts,
  5. Co-opting,
  6. Strategic alliance,
  7. Joint venture,
  8. Trade associations, an
  9. Political activities.

**(a)Advertising And Public Relations -** One means of influencing the environment is advertising; which is the use of communication media to gain favourable publicity for particular products and services. Closely aligned or linked with advertising is public relations, which is the use of communication media and related activities to create a favouable overall impression of the firm to the public.When combined, advertising and public relations can help promote a positive feeling toward an organisation among environmental elements.

**(b)Boundary spanning** - means creating roles within the organisation that interface with important elements in theenvironment. Boundary spanners (i.e, the people in these roles) can perform two (2) different functions, these are:

Firstly, they can serve an information -processing function by collecting information from the environment; filtering out what is important, and transmitting it to those inside the organisation who can act on the information, and secondly, they can perform an external representation function by presenting information about the organization to those outside.Examples of boundary spanners are:sales persons,purchasing specialists,personnel recruiters,admission officers,shipping and receiving agents,receptionists,lawyers,scientists who maintain close ties with development in theirfields, etc.

**(c)Recruiting** - Is the process of finding and attempting to attract job candidates who are capable of effectively filling job vacancies. This tool can be used for environmental influence when firms seek job candidates who have a knowledge of and close ties to a significant element of the environment.agreements on matters of importance to the firm. Specific agreements with customers and suppliers are one common means of creating environmental favourability.

**(d)Co-opting** - Is the process of absorbing key members of important environmental elements into the leadership or policy - making structure of an organisation.

A common example of co-optation is the addition of key members of the environment to board of directors. For instance, most Universities and Polytechnics have prominent individuals on their boards/councils. These individuals often help the universities/polytechnics deal more effectively with environmental elements, particularly in the area of raising funds from business and/or legislatures, However, powerful and influential outside individuals, may raise serious questions about the organisation's practices and, thereby, constitute a threat to current management (Lesly, 1995)

**(e)Strategic Alliance** - Is an agreement in which two or more independent organisations form a cooperative partnership in order to gain mutual strategic advantage (Yoshino and Ranga, 1995). Strategic Alliances**,**Usually occur because there is some mutual advantage for the organisations involved that would be difficult to realize or achieve if each acted alone.

Such alliances are becoming more common largely because cost, market, and technological factors often encourage the pooling of resources for greater effectiveness (Anderson, 1990).

**(f)Joint venture** - Is an agreement involving two or more firms that arrange to produce a product or service through a jointly owned enterprise.

**(g)Trade Organisations** - are organisations composed of individuals or firms with common business concerns. Members of trade association include: manufacturers, distributors, importers, brokers, and retailers of a product or group of products.

Moreover, trade associations may also be individual or organisation concerned with supplying, transporting, or using the goods or services of a particular industry.

**Political Activity** - Here, organisations attempt to enhance their competitive situations by influencing legislation and/or the behaviour of government regulatory agencies.

Political activities may be carried out by a single organisation on its own behalf or by several organisations or associations for the collective well-being of the group.

**Domain Shifts** - means changes in the mix of products and services offered so that an organisation will interface with more favourable environmental elements.

One of the ways of doing this is to move entirely out of a current product, service, or geographic area into a more favouarble domain.Another way is to expand current domains through diversification, that is, the expansion of products and services offered.

**Benefits and the Environment: Business Environment**

Many approaches have been used in the past to explain how organizations operate - The classical, organic and the quantitative schools focuses on aspects of organization which a manager could influence directly. The approach has been criticized for being too restrictive and inadequate since these schools failed to account for the varying environmental factors that dictate the fortunes of organizations. For instance, in the past organizations focused mainly on profit maximization, however, recent challenges posed by external groups such as government, unions, and public have created the need for maintaining an equitable working balance among these interest groups.

The system and the contingency approaches to management have offered a useful suggestion by emphasizing on the whole organization and the interrelationships of its parts, the major implication of these schools' approach is that an organisation must be examined as a whole, including its parts or "Subsystems" and as a part of the environment around it.

In management, the word "Environment" does not necessarily mean physical surroundings, but is used to describe all those influences that bear upon the individual organizations.Since business makes demand on the society and the society makes demands on the business, managers in any organization must interact with and respond to environmental factors-internal or external to their organizations. The.sum of these interrelationships within the business and between the business, and the society is what management practitioners called the business environment.

All managers whether they operate in a business or Government Corporation, a mosque, church or a charitable organization must take into account environmental constraints as well as the need for material and human resources. The effect of environment varies from one situation to another for example, me environment suitable for a particular growth may be hostile to the survival of another business. Although managers find it difficult to effectively change most of these forces however, the ability to identify, evaluate and react to these forces will have considerable impact on organizational effectiveness. For example the failure of some manufacturing concerns in Nigeria should not be attributed to government policies only, these companies should also be blamed for their inability to effectively identify, evaluate and react to the changes witnessed in the Nigerian economy since 1980.

The need for studying business environment is important considering the fact that organizations do not operate in vaccum and effective management in complex and dynamic society requires the assessment of strengths and weaknesses of the organization and the opportunities and threats posed by the challenges of the external environment. For survival and growth, organization also adapt to these changes.

**Classification of Business Environment**

Manager is no universal classification that provides the dimension covered by business environment. The following are some of the commonly used satisfaction.

**Classification Based On the Rate of Change**

Business environment can be classified by determining the extent to which the environment factors change. Environmental influences may be stable over the c periods, dynamic (i.e change at a predictable rate) or turbulent (i.e change at predictable rate). Forecasting environmental factors in a static and a turbulent environment may be useless considering the fact that environmental factors do change in the former, while forecasting in the latter - is unattainable. Therefore, there is need to concentrate on effective internal management to in organizational success where it operates within a static environment. Good living and decision making in a turbulent environment requires a greater deal ofmanagers personal characteristics rather than ability to speculate the environmental factors.

**Effect of the Environment**. The environmental factors that must be exploited or threats or problems that must be in/out by the organization.

Environmental can be simply referred to as business activities that can be highly exploited by an organization. The opportunities may be visible or little. The environmental influences may open new investment opportunities ho organization i.e. new uses and new products.

mis or problems can be regarded as "limiting factors" that is, the factors that i negative impact on the success, growth and survival of the organization. An implore

of environmental impact on the business can be viewed from the current Adjustment Programme (SAP) The fundamental changes in the (in r of the Nigerian economy through SAP have contributed to the success of ts, banks in particular, and the failure of some organizations.

**Extent of control**:

In this classification, the environmental forces may be controllable i.e. manners could use their managerial skills and experience to change these environmental forces. On the other hand, the forces may be uncontrollable ie. they are beyond the ability of individual managers and managers must consider the environment as given and adapt their management practices to suit the environment.

In general the environmental forces are usually classified, into two main categories namely: internal and external environment.

**Internal Environment**: Internal environments are the environmental forces or influences that affect the business as a separate entity. The environment consists of the functional structure and relationship in an organization. Sometimes, the environment is called organizational climate or internal working system. The main elements of internal environment include Finance, Marketing, Production, Organization, Planning and Personnel.

Finance sub elements include investment appraisal, sourcing for funds, application of funds, cost and financial control, establishing financial policies and provision of financial information for decision making.

Sub-elements of marketing are the target market number and socio-economic characteristics, pricing and pricing policies, channels of distribution, promotional strategies and market research.

Production sub-dements include raw materials, machines, product- designs, location of factory, layout technology, purchasing of inputs, quality control and inspection, production planning and control.

Planning sub-elements include production planning, scheduling of operations, progressing and dispatching, research and development. Organization supplements, departmental on, formal relationships and management of informal groups as well as coordination of activities to attain the overall goal. Personnel sub-elements deal with human resource planning recruitment, selection, training and development, leadership, communication and management of compensation.

**External Environment.** The forces that affect a business organization as well as other businesses operating within the same environment are known as external environment. Such forces are external to the organization and cannot be effectively controlled by managers. They are relevant to organization's operation and must be carefully monitored. The common practice is to divide these forces into two major elements, direct action elements and indirect action elements. The direct elements or the immediate task environment consists of individuals or group of individuals who have considerable impact on the attainment of the organisational goals. Such individuals or groups usually have long standing relationship with the organisation.

They include: Shareholders, customers, financial institutions or creditors suppliers, labour organizations, government agencies, public and local communities.

**Shareholders:** The business is usually set up by the stockholders by contributing capital in form of shares. The shareholders have the right to dividend, vote, additional shares and inspection of company book.. In exercising these rights Ihey have direct influence on the actions and decisions of organizations. Although in recent years the influence of the shareholders and the b-jard of directors on firms have been weak due to dilution of ownership and control.

**Customers:** are individuals or group of individuals that constantly utilize the goods and services rendered by an organization. The customer determine what the business is and it is their willingness to pay for goods or for services that converts economic resources into revenue for the organization.

**Financial Institution/Creditors:** Organizations depend on availability of funds for working capital as well as purchase of assets. The financial needs of new and existing firms are obtainable from institutions such as banks, insurance firms and other financial institutions. Hence, effective relationship with financial institutions is also important to any Organisation.

**Government:** In exercising its role of improving the general welfare of the society, the government serves in various capacities such as a facilitator of economic development, as a regulator in industrial activities and as a participator. These functions have considerable impact on the business.

**Suppliers:** Organizations obtain the required inputs from the environment and convert them to output for the use of the environment. Hence, every organization depends on suppliers of raw materials, energy, equipment and labour for effective operation.

**Labour Organizations:**Supply of needed human resources is necessary for smooth running of an organization. When organizations formally recognize the labour union, management - labour relations will need to be determined by means of collective bargaining agreement.

**Public and local Communities:** Organisations are located in particular areas and the attitudes of the people residing in the area where a business is located will have considerable impact on the business.

The indirect-action aspects of the business environment include

* Socio-Cultural environment
* Technological environment
* Economic environment
* political/Legal environment
* International environment

**Socio-Cultural Variables** - The Social environment may be described as the way of life of people in a society. It is made up of the attitudes, desires, expectations, beliefs, degree of education andcustoms of the people in the society. The political/legal, technological and Economic environments are important, however, the ultimate design and consequently the impact of these-environment depend on the social structure. In fact, the internal environmental factors are also affected by the socio-cultural variables For instance the "holistic" Japanese management style and "analytic" American style reflect their socio-cultural environment.

The attitudes of the society toward a business will depend on whether the firm has been responsive to the needs and aspirations of the society. Recently, managers have been criticized for not being responsive to the social attitudes of individuals, groups or societies. This accounts for increasing pressures on the Board, of Directors of contemporary organizations to be socially responsible. One of the fundamental sub-elements of socio-cultural environment is the ethics. All persons whether in business or government, or any other enterprise, are concerned with ethics. Ethics is defined as the discipline dealing with what is good and bad and with moral duty and obligation. The ethical codes demand that managers must not look solely for their own personal advantage, but they must also refrain from actions that are in conflict with the interest of the people they represent.

**Technological Environment:** One of the most dynamic element of the business environment is the level of technology. The term "technology" is used to denote the application of scientific principles to solve industrial problems. It includes inventions and improvement in methods, machines and materials It could mean the vast store of organized knowledge of doing things mechanically rather than manually. The main results of technology influence are on method of work, design of product and machines as well as improved services.

Changes in technology may affect the actions of competitors and even strengthen the competitive positions of an organization. The benefits of technology to the society can be itemized as follows:

1. Vast increase in goods and services available to the society.
2. It provides new products, new machines, new tools and new services.
3. It reduces prices through large scale production and improves the standard of living of the society.
4. Efficiency-of production is improved by means of technology
5. The amount of dangerous and prolonged manual labour is also reduced and more leisure time for human beings.
6. Technology improves the design, planning, scheduling and control of production system.
7. Mechanization and automation of organization system is made possible through the use of technology.

Mechanization is the substitution of machinery for hard labour capital intensive, while automation is the manufacturing of products or parts automatically from one automatic operation to another, producing finished goods without the need for human hands.

Although technology is beneficial to the society as a whole, however, there are some limitations imposed by technology. The limitations include:

1. Large capital investment in capital goods
2. Risks of obsolescence of finished goods
3. Risk of unemployment and
4. Social costs arising from technology e.g. pollution and industrial unrest.

**Economic Environment:** This refers to the general pattern of the economy which can be viewed from three dimensions: economic system, general business cycles, and the economic policies. Economic system is the way in which the goods and services of a given society are produced and distributed. This has significant impact on the operation of business organization. Three main economic system can be identified, the capitalist, communist and mixed economy. In capitalism, the bulk of goods and services needed by the society are created and distributed by private enterprises in search for profit. For instance capitalist economic system exists in Great Britain, America, Western Germany. In such economic system, the environment is fundamentally competitive, although there are varying degrees of competition in the different industries. In communist, the state or central government assumes total responsibility for the creation and distribution of all goods and services. Decisions relating to what to produce, how to produce and in what quantity are made by a central authority. The state also decides oh distribution methods and the prices of goods Examples are China, Russia, Cuba, although most of these countries have given a hard look to their economic philosophy. In such economy, competition is at the lowest level.

In most developing countries of Africa one finds the intermediate approach to economic philosophy where goods and services needed by the society are produced and distributed by both the states and private entrepreneurs. The general business cycles of boom, recession, depression, recovery and prosperity can affect the operation of any organization. The level of business activities can be determined by measuring the following indicators: prices and price level, productivity, nominal and real income, interest rate, employment, cost of having-and standard of living. For instance, during the economic boom business activities are at a high level, with high employment rates, stable prices, high demand and increase in utilization. The recession is a down-turn in business cycle with low rate of business survival, high unemployment and increasing prices.

Government policies geared toward putting the economy in its right direction also have considerable impact on the business. The policies include fiscal and monetary policies. The fiscal policies deal with government spending and the level of money in circulation. For example, the tight monetary pressures imposed by the government resulting from implementation of SAP strategies have considerable impact on business firms:

**Political/Legal Environment:**The political and legal environment is primarily those complex laws, regulationsand government agencies and their actions which affect all kinds of enterprises to varying degrees.

The government in improving the living condition of people uses the resources; human and material with which the country is endowed, plays three major roles: as aparticipant, a facilitator and regulator.

As a participant the government may have direct investment in some strategic business activities. Such as the Nigerian Defence Industries, or have direct majority equity interest, e.g. financial institutions or indirect investment through wholly owned government institutions e.g. the Nigerian National Petroleum Corporation. It is worthy to note that the current drive towards privatization and commercialization has reduced the majority interest of government businesses.

As a facilitator, it promotes business by stimulating economic expansion and development. For example provision of financial assistance to business through banks, giving tax relieves, supporting research, protecting of some business through special tariffs, providing the needed infra structural facilities and acting as the biggest customer for these businesses are some of the facilitating functions provided by the government. The facilitating role of the government also requires maintaining political stability, ensuring that law and order are maintained to create As a Regulator, laws, edicts, policies, regulations and court decisions are established to ensure that business organizations are legitimately formed and that workers, consumers, communities and even the government are protected from the Indigenization Decree, Price Control Act, Productivity, Prices and Income Board, Standard Organization of Nigeria are some areas where the role of the government may be recognized.

**Physical Environment:** The physical environment includes the availability of land, tropical climates, weather conditions, mineral resources, water and infrastructural facilities.

**International Environment:** Nowadays, it is becoming more and more essential for managers to relate their actions and decisions to broader dimension of international environment. The international component of the external environment also presents opportunities and challenges for business. This environment include cultural, political, economic and technological environment of countries where a business operates. For instance, a company that engages in exportation needs to realize that the success or failure in foreign markets often depends on accurate knowledge of laws, customs, market systems and method of management in the countries where its operates.

The following factors may account for the growing need for knowledge about international events by business organizations.

* The development of Multinational corporations that operate across nations.
* The need for a nation to seek for comparative advantage by means of international trade.
* The need for foreign investment to boost the home economy and project the image of home country abroad.
* Raw materials required by a business may not be available locally and hence, must be obtained from foreign countries.
* The need for transmission of information among nations to advance accelerated industrial development.
* The need for foreign personnel where the present educational level cannot cope with labour requirement.
* Seeking for foreign markets for locally produced goods so as to expand the demand for the product.