**Concept of Business Environment**

A business firm is an open system. It gets resources from the environment and supplies its goods and services to the environment. There are different levels of environmental forces. Some are close and internal forces whereas others are external forces. External forces may be related to national level, regional level or international level. These environmental forces provide opportunities or threats to the business community. Every business organization tries to grasp the available opportunities and face the threats that emerge from the business environment. Business organizations cannot change the external environment but they just react. They change their internal business components (internal environment) to grasp the external opportunities and face the external environmental threats.

The term ‘business environment’ are the combination of both internal and external environment. The external forces, factors and institutions that are  beyond the control of the business and they affect the functioning of a business enterprise.  These include customers, competitors, suppliers, government, and the social, political,  legal and technological factors etc. While some of these factors or forces may have direct  influence over the business firm, others may operate indirectly. Thus, business environment  may be defined as the total surroundings, which have a direct or indirect bearing on the  functioning of business. It may also be defined as the set of external factors, such as  economic factors, social factors, political and legal factors, demographic factors, technical  factors etc., which are uncontrollable in nature and affects the business decisions of a firm.

* Business Environment has been defined by Bayard O. Wheeler as “the total of all things external to firms and industries which affect their organization and operation”.

In conclusion, *Business environment means all the internal and external forces(elements) that affect the business directly and indirectly.*

## Characteristics of Business Environment

**The business environment has its salient features.**Every business manager willing to effectively interact with their business environment must properly understand its features for outstanding business success.

### 1. Complex

Complexity is a significant characteristic of the business environment. Since the business environment comprises many factors, a sudden change in a business enterprise sometimes cannot be traced to one aspect.

**A business's overall performance summarizes all the environmental factors' inputs and effects.**

### 2. Dynamic

Due to the influence of its many factors, the business environment is ever-changing. It is dynamic.

**A good business has a flexible structure to suit its changing environment.** Business organizations and their management should be strategic in their business approach.

The business owner has to regularly study internal and external factors to take advantage of the changing business environment.

### 3. Uncertainty

Have you ever wondered why business professionals make predictions? It is because the business environment is uncertain. Only forecasts can help you prepare for future events.

### 4. Multifaceted

**The business environment is multifaceted.**Its factors are interconnected, so several factors can cause a single change in business. For instance, companies may experience low sales if new competition arises; this also means changing customer preferences.

Likewise, if a country's policies encourage the influx of investors, more businesses will spring up. Another implication of this is an increase in competition.

**The geographical location of a business can also determine its sales.**If a company is close to its customers, it will be easier to make sales, but the geographical area may not be advantageous when it is far.

However, good leverage on technology will help the business to reach its customers irrespective.

### 5. Far-Reaching Impact

Since business environments are what the business depends on to survive, it is only natural for them to have a significant effect on the company.

**Any slight change in a business environment will ripple impact on the business.** The difference in government policy can either work for or against a business.

For instance, if the British government bans the importation of certain cosmetics, this will hurt concerned businesses in the country. It can ultimately lead to the shutting down of companies in the beauty industry.

### 6. Relativity

**A business environment differs from place to place.** It is affected by the local conditions and situations in which the business is set up. Just as the business policies in the U.S.A differ from those in Kenya, so will the business environment.

The relative concept**encompasses the government, society, culture, customers, geography, competition, economic conditions,**and other factors in a particular environment. They determine the success and struggles of a business in that location.

## Components of Business Environment

As the physical environment comprises different components, so is the business environment. [**The business environment is made of various components**](https://www.founderjar.com/elements-of-business-environment/)**.**They can be classified into two, namely, the internal and external environment.

### 1. The Internal Environment

A business's internal environment has to do with **the factors within the organization's boundaries.**It is the sum of internal factors that directly affect the business enterprise.

The firm majorly controls these factors. They are flexible to change and can be modified to suit the business's needs at any time.

**The internal environment can also be called the company environment.**It includes;

#### ****Value System****

**A value system is the basic structure of a business organization,**and everyone within this structure is expected to be guided by it. It includes the company's rules, cultures, policies, and norms.

#### ****Human Resources****

Human resources refer to the staffing within an organization.

#### ****Organizational Structure****

An organizational structure refers to all the**structures put in place to see to the effective running of the organization.**They are usually formulated from the company's vision and mission statement.

#### ****Vision and Mission Statements and Objectives****

A company's vision statement **talks about where the company is headed and the future.**The mission statement answers the what and why, the business, and why the company is necessary.

**A business objective refers to the organization's ultimate aim and how it will get there.**Together, they significantly impact the business by defining the company and determining how it will function.

#### ****Physical Resources and Technological Capabilities****

**They are a company's physical assets,** like computers, factory machines, electronic devices, and others. Likewise, the company's technical know-how is essential to its functional and effective running.

#### ****Corporate Culture****

**The corporate culture is the behavioral strategy of a company,** a set of beliefs, values, and a full mode of existence within the business enterprise. It dictates how the staff relates, how information is communicated, and how work is delivered within an organization.

**A great corporate culture includes how the enterprise handles its external relations.**

### 2. The External Environment

**External business environments refer to all the external forces a business depends on.**

In other words, they are the factors that a business depends on outside the confines of the enterprise to thrive. These factors are not within the firm's control, but they affect the company directly or indirectly.

**The external business environment is broad.**However, we will discuss it in two categories for practical discussion.

#### ****Micro Environment****

Micro environment refers to the **primary peripheral environmental factors that affect business performance.**They are the suppliers, customers, competitors, stakeholders, and media.

* **Suppliers:**The firm's suppliers have a direct influence on the business. Failure to deliver the required physical resource may lead to production delays. In the end, the uncertainty may lead to a drop in sales or loss of customers.
* **Customers:**Customers influence business profitability. If a product is out of demand, producers modify or change it. A change in customers' buying patterns hurts or improves business.
* **Competitors:**When a business environment is carefully engaged, competition can positively impact the business. Your competitors' strategies can be a positive environment for a business to grow. However, failure to update its strategies to suit the competition will affect the business. Irrespective of how organizations compete, it remains an environment for businesses to thrive.
* **Stakeholders:**[**Stakeholders**](https://www.founderjar.com/project-stakeholder-management/) are individuals and corporate bodies with a financial commitment to the company. Examples of stakeholders include investors and creditors. They affect individual enterprises directly and indirectly in their day-to-day business operations.

#### ****Macro Environment****

The macro environment is **the environmental factor outside the confines of a business enterprise,** but it affects the business strategies, performance, productivity, and profitability.

Factors under this category include:

* **Economic Environment:**The economic environment refers to the nature of the financial activities within the country, state, or city where the business is situated.It is crucial to a business because it influences the real purchasing power of its customers. A buoyant economy means progress for the business, while a redundant economy spells doom for the company.
* **Political Environment:**The political environment refers to governmental policies such as fiscal policies, necessary bans, and interest rates that affect businesses.
* **Physical Environment:**The physical environment is the geographical location in which a business is situated. It is imperative to a business's overall performance.
* **Socio-Economic Environment:**A change in consumer preferences, demographics, and lifestyle can affect a business.
* **Technological Environment:**The technological environmentincludes alltechnological changes that can improve a business's delivery and profitability. Introducing new technology can mean progress for a company while it spells doom for another. For example, Maruti Suzuki India Ltd. dominated the small car market with mid-segment cars in India because they understood their business environment. With rising petroleum prices in India and a rapidly-growing middle-class population, Suzuki developed low-maintenance and mileage cars for small families. They increased their car production to make faster delivery.
* **Global Environment:**The global environment is the worldwide market and workspace for the business. All changes will affect the business workspace. Many companies experienced poor business results during the Covid-19 pandemic. Only those who worked remotely could keep their businesses going.

**Organization and environment interface**

The environment of a [business](https://www.toppr.com/guides/business-studies/nature-and-purpose-of-business/concept-and-characteristics-of-business/) has a great impact on the functioning of the firm. It offers opportunities and threats along with limitations and pressures influencing the structure and functioning of the business. In order to understand the relationship between an organization and its [environment](https://www.toppr.com/guides/geography/environment/environment/), we will look at the interactions between them in some primary areas:

1. *Business and Demographic Environment:*

*Demography is the study of human population with reference to their age, gender, status, occupation, income, education etc. The demographic environment differs from country to country and has significant implications on business. On the other hand business firm also affect the demographic pattern of a country due to diversified demographic environment, a business is compelled to adopt different functional and marketing strategies.*

2. Business and Economic Environment:

The economic environment of a country comprises of the structure of the economy, economic resources, level of income, economic policies etc. Any change in the economic policy can have a positive or negative impact on the working of the business.

Business organisation has to consider the various economies prevailing in the country like import policy, industrial policy, taxation policy etc. which can have a great impact on the business.

3. Business and Technological Environment:

Technology refers to the set of process in an organisation to transform raw material of resources into finished goods and services. Technology includes tools- both machine (hard technology) and way of thinking (soft technology).

It includes not only the knowledge and method but also the entrepreneurial expertise that enhances the competitiveness of a nation. Technology can greatly influence business decisions. It helps in minimizing cost, reducing wastage and brings higher efficiency in the production process. Information technology has brought about revolutionary changes in the world of business environment.

4. Business and Natural Environment:

Both natural environment and business are closely related and have influence over each other. Natural environment is also termed as physical environment Business depends on the nature for supply of resources like raw material, water etc.

The business has to adjust with the environment to ensure its survival. Ecological factors have recently assumed great importance. The excessive use of these resources, environmental pollution and the disturbance of ecological balance has caused great concern. One cannot take the environment granted.

The business should give due consideration for the conservation of natural resources. Similarly geographical factors affect the location of industries. Availability of natural resources is the fundamental factor in the development of industries.

Weather and climatic conditions affect the demand pattern. Manufacturing the most important aspect of business depends upon physical environment. Thus natural environment has a great influence on the economic activities.

5. Business and Cultural Environment:

Culture refers to values, attitude, belief, morals, customs and traditions. Culture is a critical component of business environment. Proper understanding of cultural dimension is very important for product development, promotion, human resource management etc.

Business and culture are closely associated with each other. Culture is the powerful element to shape the business. The business should come up with various cultural events, thereby promoting and preserving the rich culture of a country.

Business should be well versed with the culture, language, traditions shared by different community to meet their wants. Understanding of culture is very essential in the formulation of business strategies. As culture influence business activities, business also should influence our culture by promoting festivals and cultural events in the country.

**Emerging Issues and Challenges for Management**

The business environment since the last few decades has witnessed a sea change mainly due to rapid development in transportation and communication networks, an innovation of new knowledge, globalization of business, the combination of multi-cultured professionals, and so on. That is why [managers](https://notespress.com/types-of-managers/) must be capable enough to adjust to the emerging challenges for management.

The following are some of the major issues and challenges for management:

1. Globalization
2. Development of Environmentalism
3. Quality and Productivity
4. Ethics and Social Responsibility
5. Workforce Diversity
6. Innovation and Change
7. Empowerment of Employees
8. Knowledge Management
9. Technological Development
10. Multi-Cultural Effects

**Globalization**

The introduction of a network in transportation, [communication](https://notespress.com/communication-definition-characteristics-network-elements-of-process/), and economic- interdependency has tied the people of the world together and causing the globe to shrink. Any quality product or service produced in one part of a country can easily reach all parts of the world without any restrictions or barriers. Especially, multinational companies are global players in business not only to survive but also to prosper business operations.

Since globalization has already brought the concept of keen competition among the entrepreneurs of the world. Therefore, the present managers have to work hard by considering the global perspective. For that, they must be innovative and adjustable according to the changing environment.

**Development of Environmentalism**

Environmental issues are one of the major issues in management these days. These issues involve deforestation, global warming, and depletion of the ozone layer, toxic waste, and pollution of land, air, and water. These environmental issues may not be a matter of interest to an enterprise, especially in developing countries. But, these matters draw the attention of different social, business, and political institutions. For, the main-stream politicians and social activists around the world have picked up the environmental banners.

The green movement has spread in Europe, North America and other parts of the world to maintain the environmental ecology. Therefore, the present managers have the challenge to develop creative ways to make a profit without harming the environment in the process of production.

**Quality and Productivity**

Quality and productivity are also emerging issues in the present business world. In the past, many managers assumed that it could increase output only by decreasing quality. However, present managers have concluded that such an assumption is almost always wrong. They have recognized that quality and productivity are interrelated to each other. The introduction of a quality enhancement program provides, broadly, three positive results to the management.

Firstly, the number of defects will be decreased causing a low return of defects from customers.

Secondly, when the number of defects goes down, the involvement of resources to rework on the defectives will decrease resulting in minimized wastage of resources.

And thirdly, when employees become responsible to maintain quality, it reduces the need for quality inspectors as a result of which efficiency and effectiveness of an organization will improve.

**Ethics and Social Responsibility**

Social responsibility has become a growing concern for managers today. Ethics is an individual’s personal beliefs about what constitutes right and wrong. It is developed through family, experience, personal values, and morals, and situational factors.

The most vital ethical concern of modern managers is to know how an organization treats its employees, how employees treat the organization and how an organization treats other economic agents like customers, competitors suppliers, unions, etc. It is also a part of the managerial function to use leaders, culture, training, codes, and guidelines to help employees and other economic agents to maintain ethical behavior, which is ever-changing.

**Workforce Diversity**

Workforce diversity is increasing in organizations today because of changing population dimensions. There are several dimensions of diversification; however, the important ones are age, gender, and ethnicity. The overall age of the workforce is increasing.

Similarly, more women are also getting involved in the workplace, and this diversification in the workforce can affect an organization differently. From one angle it can be the source of cost advantage, source of resource acquisition, marketing, creativity, problem-solving, and system of flexibility. From another angle, it could be a source of conflict in an organization.

**Innovation and Change**

The innovation of new knowledge to fulfill the expectations of [stakeholders](https://en.wikipedia.org/wiki/Stakeholder_(corporate)) is increasing today. It has become a fact of everyday life for everyone in business operation. At present managing change is a critical challenge to the managers. Change may occur in an attitude and behavior of stakeholders like competitors, customers, employees, suppliers, and lenders. It is an important responsibility of managers to handle such changes scientifically and practically. They have to improve the quality of products and services to fulfill the changing need of customers.

Besides, managers can use a variety of tools to harmonize the working environment of the organization like the implementation of the reward system, the development of entrepreneurship, and organizational culture.

**Empowerment of Employees**

Employees are the major element of the internal environment of an organization. When managers and employees embrace the same values and have the same goals, it becomes convenient to achieve organizational objectives.

To maintain a mutual relationship between managers and employees it is essential to delegate the decision making authority to subordinate level employees, which is a challenging task.

At present, employees have become more powerful due to decentralized authority and labor unions affiliated to political parties, and this has been a serious problem for many organizations.

**Knowledge Management**

In this competitive environment, Knowledge has become power. And society expects new ideas, new things, and creativity in product or service from any organization. To fulfill each social expectations, the manager has to accumulate knowledge and ideas from all members involved in the organization. A model manager must be flexible to manage knowledge and should consider the situational factor.

**Technological Development**

Today, technological development is an ever-growing process. technological development tends to increase the aspirations and expectations of customers, investors, competitors, employees, and other stakeholders of an organization. It also develops the concept of a competitive environment among manufacturers and suppliers.

Thus, modern means of communication should be used to transform information with customers.

**Multi-Cultural Effects**

An Innovation of modern communication and transportation system has tied the multi-cultured people together. They work together to meet their common and professional objectives even if they have different traditions, values, social attitudes, religious beliefs, and living approaches. The involvement of cross-cultural professionals in organizations is continuously increasing. Management is effective only when it can maintain coordination among multi-cultural professionals.

**Conclusion Emerging Challenges For Management**

In conclusion, there are lots of emerging challenges for management these days. In the era of global competition, managers must be competitive enough to hustle with the global market and situational factors. Globalization is shrinking the globe in a narrow vision. To make the business successful and competitive firstly managers should be competitive and updated.