

INTRODUCTION

Business is an economic activity which is related with continuous production of goods and services for satisfying human wants.

Business is an organization or enterprise engaged in producing goods and services for profit motive. It is a collective effort where a firm is engaged in commercial, industrial or professional activities.

The main aim of business is to satisfy the needs of customers. The success of every business depends on adapting itself to the environment within which it functions. For example, with changes in government policies, the business needs to adapt itself to the new policies

BUSINESS ENVIRONMENT

All businesses aim to achieve multiple objectives. A business manager identifies and sets some important objectives like survival, stability, growth, profitability and efficiency. Enterprise needs to balance these objectives. Profit is the biggest stimulus for the survival of the business and its future development. There is always a risk involved in business and profit is the reward for taking the risk. Business can be established, but it is difficult to survive in this competitive world where the whole world is one market. So, business needs to scan the environment.

Environment refers to all external forces that affect the functioning of the business. Environmental factors are largely, if not totally, external and beyond the control of individual industrial enterprises and their managements. The surrounding in which the business operates is called the **business environment**.

“Business Environment is the aggregate of all conditions, events and influences that surround and affect the business.” **Keith Davis**

“Business Environment encompasses the climate or set of conditions-economic, social, political or institutional in which business operations are conducted.” **Prof. Weimer**

“The term Business Environment of a company is defined as the pattern of all external influences that affect its life and development.” **Andrews**

“The total of all things external to firms and industries that affect the function of the organisation is called business environment.” **Wheeler**

These definitions give a clear understanding of the business environment. We can say that a business environment is a combination or mixture of complex, dynamic and uncontrollable external factors within which a business is to be operated.

CHARACTERISTICS/NATURE OF BUSINESS ENVIRONMENT

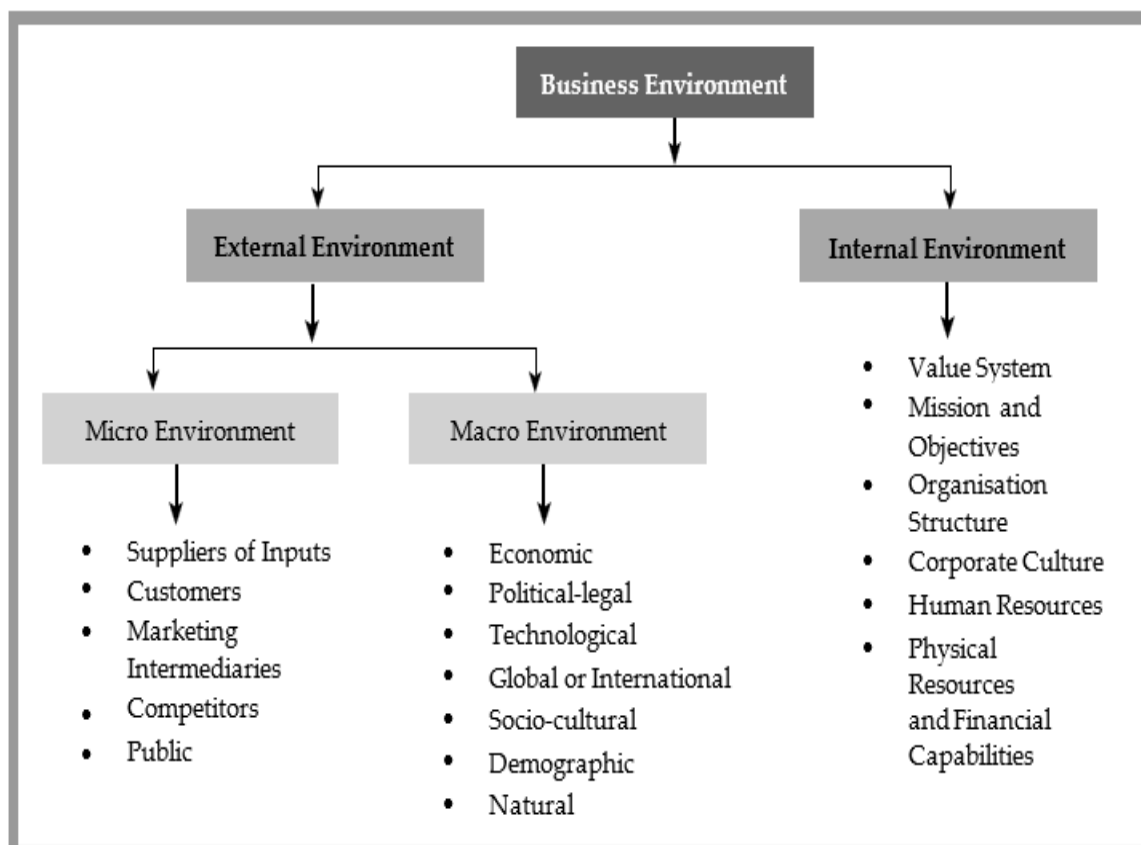
- **Internal and external environment:**
Every business is surrounded by internal and external environment. Internal environment can be controlled by an organisation, like men, money, material, machine, and method, whereas the external environment is uncontrollable like political conditions, technologies, legal regulations, etc.
- **Dynamic and ever-changing:**
The business environment keeps on changing frequently in terms of technologies, government rules and regulations, socio-economic conditions, etc., which make business dynamic.
- **Complexity of the environment:**
Business environment cannot be easily analysed because of too much complexity involved. Environment consists of a number of factors, events, conditions, and influences, generated from different sources which impact business, thus, making the business complex.
- **Inter-relatedness:**
Factors of business environment are related to each other. For example, changes in political parties will result in changing the government rules, fiscal policies, market conditions, technology, etc. So, all the factors need to be scanned properly because these factors are inter-related to each other.
- **Uncertainty:**
It is difficult to predict the changes going to take place in future because environment keeps on changing. These changes are uncontrollable. So, businesses can only try to combat from these challenges. For example, in case of fashion industries, changes take place so frequently, economy could collapse any time.
- **Impact:**
Impact means the effect of environment on business. Business environment has both long-term and short-term impacts on business. For example, different firms may get influenced differently from change in monetary policy.
- **Inter-dependence:**
A business firm and its environment are mutually interdependent. The economic status of a country affects the development of technology or it may change the lifestyle of people

IMPORTANCE/SIGNIFICANCE OF BUSINESS ENVIRONMENT

- **Identification of business opportunities:**
Many opportunities are provided by the business environment to the organisation. Scanning the business environment helps businesses gain a first-mover advantage. If changes are analysed carefully, they can lead to business success.
- **Optimum utilisation of resources:**
Resources like raw material, machines, money, labour, etc., are inputs for business. All these inputs are provided by the environment to business firms for carrying out their activities and also expect something in return.

- **Identification of threats and early warning signals:**
Businesses can recognise threats by analysing changes in the environment. For example, if a new multinational company enters the Indian market, the manager of an Indian firm dealing in the same product should take it as a warning signal. Before the MNC launches its product, the manager should implement measures, such as improving product quality and running heavy advertisements.
- **Coping with rapid changes:**
To efficiently cope with changes, managers must understand the environment and adopt appropriate actions at the right time. This helps management become more sensitive to the ever-changing needs of customers, enabling them to respond effectively.
- **Meeting competition:**
Analysing competitors' strategies through the business environment enables firms to formulate their strategies accordingly.
- **Identifying firm's strength and weakness:**
The business environment helps in identifying an organisation's strengths and weaknesses in the context of technological and global developments.
- **Assisting in planning and policy formulation:**
The business environment brings both threats and opportunities to a business. A good understanding of the environment can immensely aid management in future planning and decision-making. For example, competition increases with the entry of new firms into the market.

COMPONENTS/ TYPES /FACTORS OF BUSINESS ENVIRONMENT



Internal environment: These are those factors or conditions that exist within an organisation and affect its performance. These factors are controllable in nature, and the organisation can try to change or modify these factors. An organisation's resources like men, material, money, method, and machine come under the internal environment. Various internal factors are as follows:

- **Value system:** The values are the ethical beliefs that guide the organisation in achieving its mission and objectives. It is framed by top-level managers like the board of directors. The extent to which the value system is shared by all in the organisation is an important factor contributing to its success.
- **Mission and objectives:** The objective is the end towards which business activities are directed. All businesses focus on maximisation of profit. A mission is defined as the overall purpose or reason for its existence. A mission guides and influences an organisation's decisions and economic activities. An organisation can change or modify its mission and objectives accordingly.
- **Organisation structure:** The organisational structure is the hierarchy in business that defines roles, responsibilities, and supervision. The composition of the board of directors, the professionalism of management, etc., come under organisation structure and are important factors influencing business decisions. For efficient working of a business organisation and to facilitate prompt decision-making, the organisation structure should be conducive.
- **Corporate culture:** Shared values and beliefs in an organisation determine its internal environment and are called corporate culture. Organisations where there is strict supervision and control result in a lack of flexibility and unsatisfied employees. The set of values that help members understand what the organisation stands for, how it works, and what it considers important are part of the cultural values of a business. It helps in directing activities.
- **Human resources:** The human quality of a firm is an important factor of the internal environment. Skills, qualities, capabilities, attitudes, competencies, and commitment of its employees contribute to the strengths and weaknesses of an organisation. Organisations may find it difficult to carry out modernisation and redesigning because of resistance from their employees.
- **Physical resources and financial capabilities:** Physical resources, such as plant and equipment, facilities, and financial capabilities of a firm, determine its competitive strength, which is an important factor for determining its efficiency and unit cost of production. Additionally, research and development capabilities of a company determine its ability to introduce innovations that enhance worker productivity. Financial capabilities represent the company's ability to generate funds.

External environment: These are those factors and the conditions which are outside the organisation and affect the performance of business. All those factors outside the organization which provide opportunities or pose a threat to the organization make up the external environment. These factors are those over which the business organization has no control.

According to William Glueck and Jauck

“In environment there are external factors, which constantly bring opportunities and threats to the business firm. It includes Economic, Social, Technological and Political conditions.”

Examples of situations that may cause change in the external environment include:

- (i) Improvement in production techniques
- (ii) Fluctuations in the levels of demand
- (iii) Fluctuations in interest rates
- (iv) Changes in laws and regulations
- (v) Changes in taxation
- (vi) New social trends, fashions or lifestyles
- (vii) International influences

TYPES OF EXTERNAL ENVIRONMENT

MICRO ENVIRONMENT

Micro environment consists of factors in the company's immediate environment that affect the performance of the company. These include the suppliers, marketing intermediaries, competitors, customers and the public.

According to **Philip Kotler**

“The micro environment consists of factors in the company's immediate environment which affect the performance of the business unit. These include suppliers, marketing intermediaries, competitors, customers and the public.”

According to **Hill and Jones**

“The micro environment of a company consists of elements that directly affect the company such as competitors, customers and suppliers.”

• **Suppliers of inputs:** The suppliers of inputs are important factors in the external micro environment of a firm. Suppliers provide raw material and resources to the firm. A firm should have more than one supplier for proper inflow of inputs.

- **Customers:** They are the buyers of a firm's products and services. Customers are an important part of the external micro environment because sales of a product or service are critical for a firm's survival and growth, so it is necessary to keep the customers satisfied.
- **Marketing intermediaries:** Intermediaries play an essential role in selling and distributing a firm's products to the final customers. Marketing intermediaries are an important link between a business firm and its ultimate customers. Retailers and wholesalers buy in bulk and sell business products and services to the ultimate consumer.
- **Competitors:** Competitors are the rivals in business. Competition can be based on pricing of products or competitive advertising. For example, organizations may sponsor events to promote the sale of different varieties and models of their products. Businesses formulate strategies after analyzing their competitors.
- **Public:** Public or groups, such as environmentalists, media groups, women's associations, and consumer protection groups, are important factors in the external micro environment. Public, according to Philip Kotler, is any group that has an actual or potential interest in or impact on the company's ability to achieve its objective.

MACRO ENVIRONMENT

These are the factors or conditions that are general to all businesses and are uncontrollable. Due to the uncontrollable nature of macro forces, a firm needs to adjust or adapt to these external forces. These factors are generally more uncontrollable than the micro forces

According to Philip Kotler:

"Macro environment includes forces that create opportunities and pose threats to the business unit. It includes economic, demographic, natural, technological, political, and cultural environments."

According to Hill and Jones:

"The macro environment consists of the broader economic, social, political, legal, demographic, and technological setting within which the industry and the business units are placed."

- **Economic Environment**

The **economic environment** refers to all the forces that have an economic impact on businesses. It encompasses factors such as agriculture, industrial production, infrastructure, economic planning, basic economic philosophy, stages of economic development, trade cycles, national income, per capita income, savings, and the money supply. For example, low per capita income can negatively affect businesses, as people have less money to spend, reducing demand for goods and services. The economic environment consists of economic factors that influence businesses within a country and is inherently complex and dynamic. It constantly changes with shifts in policies, political situations, and global economic conditions, requiring businesses to stay adaptable and responsive to these changes.

- **Political-Legal Environment**

The **political-legal environment** plays a crucial role in shaping, directing, and controlling business activities. The political environment can significantly impact different business units. A stable and dynamic political environment is essential for long-term business growth. Frequent changes in the government or political policies can cause uncertainty, which may hinder business operations and growth. In democratic countries, a change in government often brings changes in economic policies, which can create either opportunities or challenges for businesses. It involves the actions and decisions of the legislature, executive, and judiciary, which collectively influence the regulatory framework within which businesses operate. Policies, rules, and regulations established by the government, such as licensing, environmental policies (e.g., polythene bans), and labor laws, directly affect business operations. A stable and dynamic political-legal environment is vital for business growth, as it creates an environment of predictability and consistency.

- **Technological Environment**

The **technological environment** refers to the systematic application of scientific or other organized knowledge to practical tasks or activities, commonly known as technology. This environment is dynamic, with rapid advancements and innovations that can significantly influence business operations. Given the speed at which technology evolves, it is crucial for businesses to closely monitor technological changes and adapt accordingly. Technological advancements can offer businesses new opportunities for innovation, efficiency, and growth. However, they also pose challenges as businesses must stay ahead of technological trends to remain competitive in the market. Companies that fail to adapt to emerging technologies may find themselves at a disadvantage compared to more tech-savvy competitors.

- **Socio-Cultural Environment**

The **socio-cultural environment** influences business activities by affecting consumer behaviors, preferences, and market trends. This environment encompasses factors such as people's attitudes toward work and wealth, lifestyles, ethical considerations, family roles, religion, education, and social issues. Understanding these aspects allows businesses to align their products, services, and marketing strategies with societal norms and values. Furthermore, businesses must also consider their social responsibility, as consumers and society are increasingly concerned with the ethical conduct and social impact of companies. Changes in social values and customs, such as the growing focus on sustainability and work-life balance, also shape market demands.

- **Demographic Environment**

The **demographic environment** focuses on the statistical aspects of a population that influence business operations. Key factors in this environment include population size, growth rates, life expectancy, rural-urban distribution, and the technological skills and educational levels of the labor force. These demographic features directly impact the size and characteristics of the consumer market and the availability of human resources. For instance, an aging population may drive demand for healthcare products, while a youthful and tech-savvy population may increase the demand for digital services. Understanding demographic trends helps businesses target specific market segments and tailor their strategies to meet changing needs.

- **Natural Environment**

The **natural environment** plays an essential role in business activities, as it provides the raw materials and energy needed for production. This environment includes geographical and ecological factors such as minerals, oil reserves, water and forest resources, climate, weather conditions, and port facilities. These natural resources are vital for various industries, including manufacturing, agriculture, and energy production. For example, in regions with high temperatures, the demand for coolers and air conditioners is likely to rise. Similarly, weather conditions influence the demand for clothing and building materials. Natural calamities like floods, droughts, and earthquakes can have a severe impact on businesses by disrupting production, supply chains, and market stability.