

Prof. A. RAMEEZA
PG & Research Department of Commerce (SF-Women)
Jamal Mohamed College (Autonomous)
Trichy-20

BUSINESS ENVIRONMENT



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Introduction

Man's life is shaped by heredity and environment. In the same way, the structure and characteristics of business are determined by two factors namely internal and external factors.

Internal factors are

Structure

Size

Investment

Employees

Share holders

Manager etc.

External factors are

Suppliers

Customers

Government

Banks

Competitors etc.

Meaning & Definition

Meaning

The definition of Business Environment, “The sum total of all individuals, institutions and other forces that are outside the control of a business enterprise but the business still depends upon them as they affect the overall performance and sustainability of the business.”

The forces which constitute the business environment are its suppliers, competitors, consumer groups, media, government, customers, economic conditions, market conditions, investors, technologies, trends, and multiple other institutions working externally of a business constitute its business environment. These forces influence the business even though they are outside the business boundaries.

Definition

“Environment contains the external factors that create opportunities and threats to the business. This includes socio-economic conditions, technology and political conditions.” – William Gluck and Jauch

“Business environment is the aggregate of all conditions, events and influences that surround and affect it.”—Keith Davis

Nature of Business Environment

(i) Comprehensive concept

The term business environment refers to all the factors in the internal and external environment that affect business.

(ii) Dynamic

Environment is not a static. Factors in the environment are subject to change . Changes in the environment provide opportunities for growth as well as pose threats for the survival of businesses.

(iii) Influences Business

Environmental factors influencing business survival, growth, decline and failure to a great extent. Firms which can identify and adapt to the changing environment enjoy success and growth. Firms which are not able to adapt to environmental changes face failure.

(iv) Influenced by Business

Business activities also impact the environment. Large scale industrialisation has led to pollution and has a negative impact on the natural environment.

(v) Uncertainty

Uncertainty is an important feature of business environment. it is very difficult to estimate the type, direction and magnitude of changes in the environmental factors. for instance, changes in government policy, competitor actions, customer preferences etc., cannot be predicted with certainty.

Nature of Business Environment

(vi) Complexity

Environment is complex in nature. There are multiple factors operating in the business environment. The importance and impact of these multiple forces varies from time to time.

(vii) Interrelated factors

Factors in the business environment are inter related and interdependent. Managers should consider all factors while planning and decision making. For instance, technology influences the economic environment. Due to developments in communication and internet, work from developed countries is outsourced to India. This has created more IT and BPO jobs.

(viii) Provides both opportunities and threats

Environmental factors and changes in them provides both opportunities and threats. Businesses needs to continuously monitor changes and adapt to them. If they do not adapt, their survival would be difficult. Nokia once a leader in the Indian mobile industry has decline due to its inability to introduce products based on customer needs . Micromax became a leading company because it was able to satisfy changing customer needs. It was the first company in india to introduced dual sim phones, phones with 30 days battery back up , gravity enabled mobiles etc.

Nature of Business Environment

ix) Multifaceted

The impact of environment differs from one company to another. They can provide opportunities to a company while posing threats to another. Consumers today prefer to access internet through smart phones . This has increased sales for smart phone companies like Apple, Samsung, Micromax etc., However, sales of PC's and laptops have declined affecting Acer, Dell etc.

(x) Short term and long term impact

Changes in the business environment impact the survival and growth of firms both in the short term and long term. For instance, the success of Patanjali ayurvedic products has revived interest in natural and herbal products. Hindustan Unilever, P & G, Colgate etc. may face intense competition from Patanjali products in the long term.

SIGNIFICANCE OF BUSINESS ENVIRONMENT

(a) Determining Opportunities and Threats:

The interaction between the business and its environment would identify opportunities for and threats to the business. It helps the business enterprises for meeting the challenges successfully.

(b) Giving Direction for Growth:

The interaction with the environment leads to opening up new frontiers of growth for the business firms. It enables the business to identify the areas for growth and expansion of their activities.

(c) Continuous Learning:

Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in realm of business.

(d) Image Building:

Environmental understanding helps the business organisations in improving their image by showing their sensitivity to the environment within which they are working. For example, in view of the shortage of power, many companies have set up Captive Power Plants (CPP) in their factories to meet their own requirement of power.

SIGNIFICANCE OF BUSINESS ENVIRONMENT

e) Meeting Competition:

It helps the firms to analyse the competitors' strategies and formulate their own strategies accordingly.

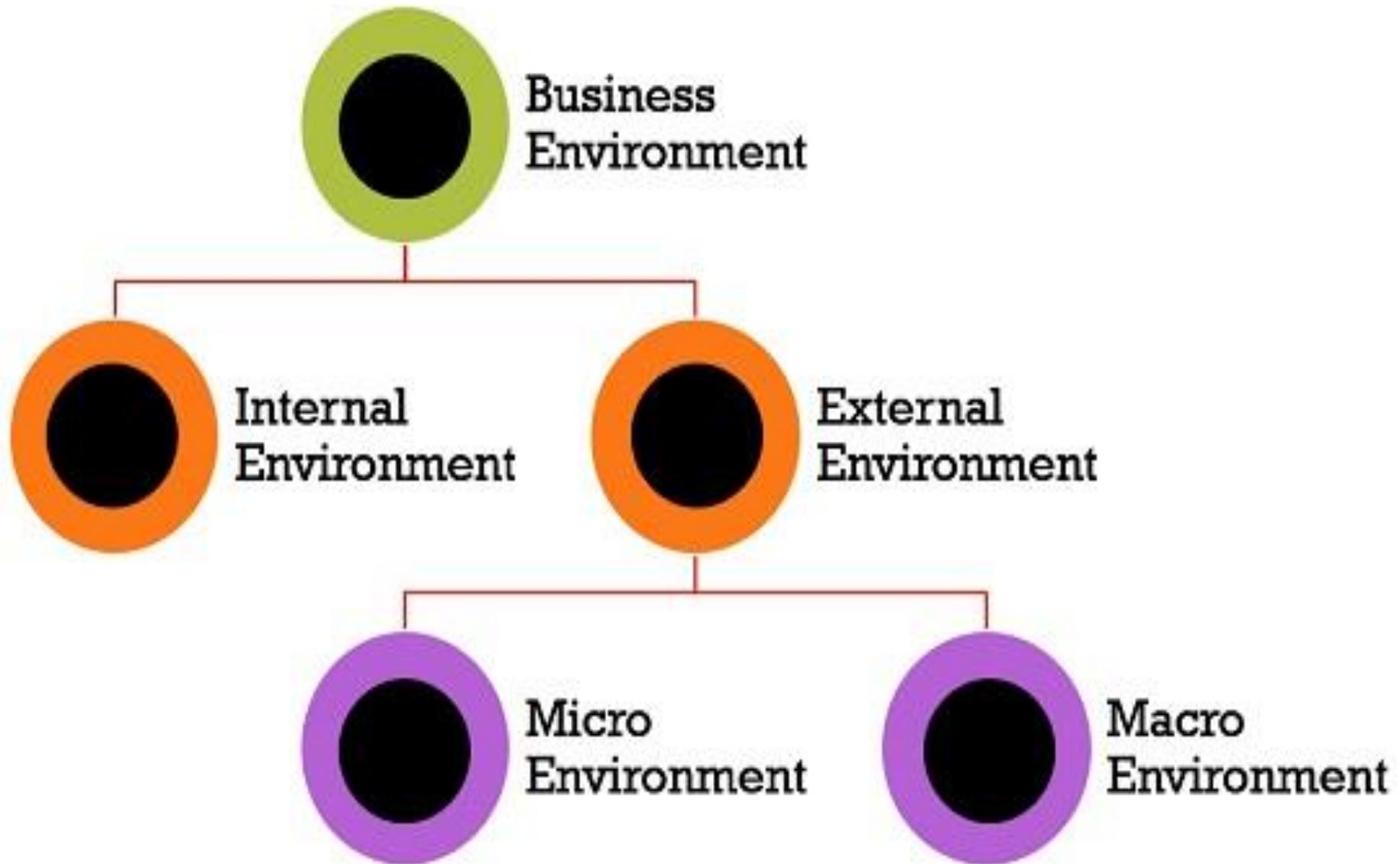
(f) Identifying Firm's Strength and Weakness:

Business environment helps to identify the individual strengths and weaknesses in view of the technological and global developments

(f) Aid in decision making :

Knowledge and proper understanding of the business environment enables intelligent business decisions. Firm can improve their strengths, overcome weakness, make use of opportunities and counter threats.

Types of Business Environment



Internal Environment

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graph TD; A[Internal Environment] --> B["(a) Financial Resources"]; A --> C["(b) Physical Resources"]; A --> D["(c) Human Resources"]; A --> E["(d) Technological Resources"];
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(a) Financial Resources

(b) Physical Resources

(c) Human Resources

(d) Technological Resources

External Environment

Micro

Macro

(a) Suppliers

(b) Investors

(c) Customers

(d) Marketing Intermediaries

(a) Economic

(b) Demographic

(c) Socio Cultural

(d) Political and Government

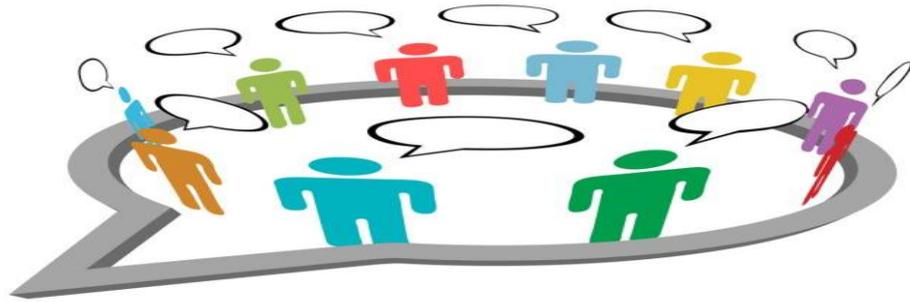
(e) Legal

(f) Technological

(g) Natural

(h) International

Internal Environment



They called internal effects and the factor that affect an organization's performance from within its boundaries

Survival of a business depends upon its strengths and adaptability to the environment. The internal strengths represent its internal environment. It consists of

Financial

Financial resources represent financial strength of the company. Funds are allocated over activities that maximise output at minimum cost, that is, optimum allocation of financial resources.

Physical

Physical resources represent physical assets such as plant, machinery, building etc. that convert inputs into outputs.

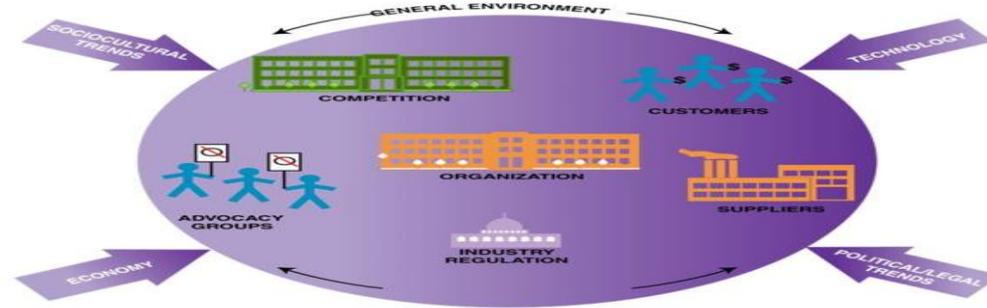
Human

Human resources represent the manpower with specialised knowledge that performs the business activities. The operative and managerial decisions are taken by the human resources

Technological resources

Technological resources represent the technical know-how used to manufacture goods and services. Internal environment consists of controllable factors that can be modified according to needs of the external environment.

External Environment



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External Environment can be divided in to two types

Micro-environment

The micro-environment is a specific environment that is in close contact with the organization. Business activities are directly affected by micro-environment

Macro-environment.

Macro-environment leaves an indirect impact on all businesses on a large-scale. Macro environment is also known as General environment and remote environment.



Micro-environment

The micro-environment is a specific environment that is in close contact with the organization. Business activities are directly affected by micro-environment

Micro Environment consists of the following



a)Customers:

Customer is the king of the market and every business exists to serve its customers. A business has no meaning until and unless there are customers to serve



(b) Suppliers:

Suppliers are the person who supply various inputs such as money, raw material, fuel, power etc. and help in the smooth conduct of business.



(c) Competitors:

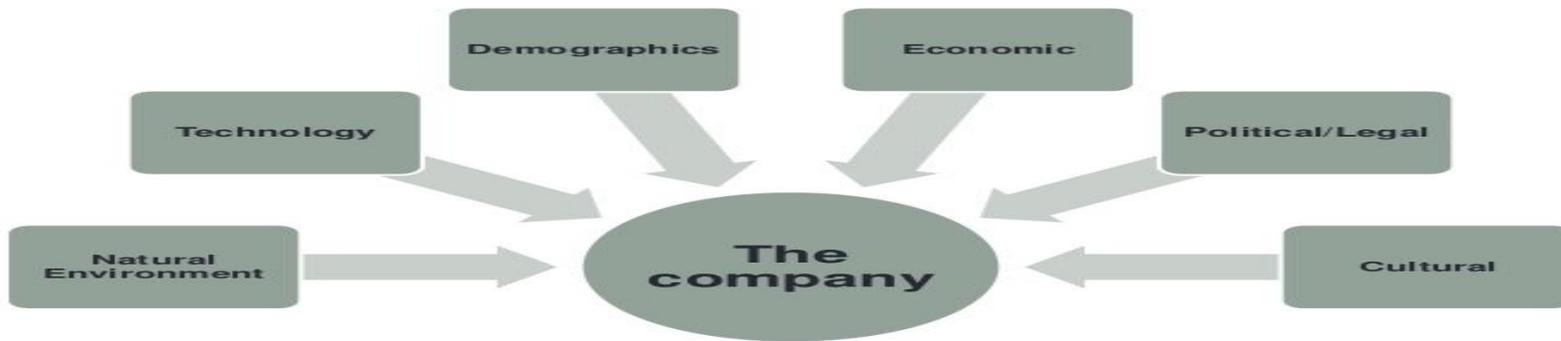
Business Firms compete to capture a larger share in the market. They constantly watch the competitors policies and adjust their policies to gain customer confidence

(d) Company Image And Brand Equity:

The image and Brand Equity of the company plays a very important and significant role in raising finance, forming alliances, choosing dealers and suppliers etc.



Macro Environment



Macro Environment :

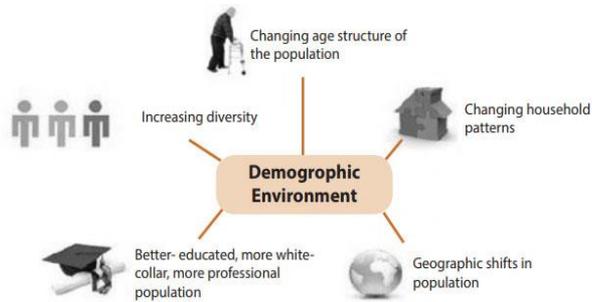
A macro environment is a set of external conditions that affect a business' development efforts either positively or negatively. These elements are considered uncontrollable and they have an impact in the company 's overall performance.

Macro Environment consists of the following

(a) Economic Environment :

. The term economic environment refers to all the external economic factors that influence buying habits of consumers and businesses and therefore affect the performance of a company.





Social-cultural Factors



Dolly Ramos Gallego

(b) Demographic Environment:

Demography is the study of human populations in terms of size, density, location, age, gender, race, occupation, and other statistics. It involves people, and people make up markets. Changes in the world demographic environment have major implications for business.

c) Socio Cultural Environment:

A set of beliefs, customs, practices and behavior that exists within a population. International companies often include an examination of the socio-cultural environment prior to entering their target markets

d) Political and Government Environment:

***Government** actions which affects the operations of a company or business. These actions may be on local, regional, national or international level. so close attention to the **political environment** to gauge how **government** actions will affect their company.*





**Legal Environment
International Business**

(e) Legal environment:

Legal environment of business is what makes the working of the enterprise harmonious. It accumulates every aspect which is remotely concerned with the business firm. The term "Legal Environment of business" relates to the code of conduct of any company.



(f) Technological Environment:

Technology is understood as the systematic application of scientific or other organized knowledge to practical tasks. Technology changes fast and to keep pace with it, businessmen should be ever alert to adopt changed technology in their businesses.



(g) Natural Environment:

Business, an economic pursuit of man, continues to be dictated by nature. To what extent business depends on nature and what is the relationship between the two constitutes an interesting study



(h) Global or international Environment

Thanks to liberalization, Indian companies are forced to view business issues from a global perspective. Business responses and managerial practices must be fine-tuned to survive in the global environment

CONCLUSION

As a conclusion, business environment involves internal and external environment. Business environment is important for an organization to identify the weaknesses and threats. ... This helps an organization to reduce the risk of getting failure in their operation and development in new product.

Thank

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