Business Environment

By: Archana Sharma

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BBA, MBA, B.Com, BMS, M.Com, BCA, MCA

and many more courses for Various Universities

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INTRODUCTION

Business environment is a term that symbolizes the surroundings making a direct or an indirect impact on different business activities. In other words, business environment is a set of forces that influence the functioning of the business.

Understanding the concepts of business environment and its significance play a crucial role in the successful functioning of an organisation. As the business environment is characterised by its dynamic and complex nature, it plays a vital role in defining the success of the organisation.

As we all know that running a business is not an easy task, it comes with its own set of challenges, opportunities and threats. Therefore, the different business strategies need to be formulated in a systematic manner where the organisation can encash the benefits of opportunities and can also shield itself from the threats being posed by the environment simultaneously. Here the significance of understanding the business environment comes to fore as after understanding the threats and opportunities, the management can take the decisions that can prove to be the driving agents for the growth of an organisation.

To accomplish the task of defining the business environment, firstly we need to identify the different components of micro and macro business environment. Further, there is a need to define different levels at which the environment operates.

Under this topic, you will be introduced with the emerging scenarios and trends of business environment existing in India. Besides, the need for scanning the environment would also be emphasised to ensure that the strategic business strategies are formed that can help in sure growth of an organisation.

In other words, business environment also helps in defining the role of yet another process, that is environment scanning. It emphasises on the need of implementing the process of environment scanning that could help in defining the different strategies and plans for the growth and development of an organisation.

Business environment is a blend of dynamism, complexities and multifaceted characters which in the long run have far reaching effect on the growth, continuity and also on the survival of the business.

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Therefore, in such a situation, it becomes mandatory for the organisations to understand the basic in-depth philosophies of business environment to make sure that they completely understand the environment in which they are operating.

Depending on different terms and conditions in terms of economics, business environment is being classified as economic and non-economic.

While the term economic denotes the economic system, economic policies and pace of economic development, the non-economic surroundings are defined by the socio-cultural, political, technological and natural factors. These factors furnish valuable inputs for making strategic decisions by interacting with each other.

However, in general, business environment is classified into two different segments:

1. Internal environment
2. External environment

The internal factors, such as the financial, physical and human resources, exist within the organisation and remain under control. However, the external factors are those that remain out of the control of the business organisation. The factors that define the external factors are value system, ethical standards and the missions, goals and objectives of the organisation

CONCEPT OF BUSINESS ENVIRONMENT

Business environment is defined by the surroundings making a direct or indirect impact on business activities.

The business environment can be categorised into different segments by classifying them under *external* and *internal environment*.

The external environment is well defined by the factors such as economics, socio-cultural, political, technological, ecological, legal and regulatory act that can extend opportunities and pose challenges to the organisation at the same time. Similarly the internal environment is characterised by physical and psychological resources. This environment helps the management of an organisation in coping and adapting to the external environment.

Thus, the success of the business is characterized by both the external and internal environment.

Business environment can also be classified on the basis of economic standards as *economic and non-economic environment*. While the fiscal policy, monetary policy, the nature of an economic system

symbolise the economic environment, the non-economic environment is characterized by socio-economic, political-legal, technological and other such factors. Both these factors keep interacting with each other and they cannot work in isolation.

SIGNIFICANCE OF BUSINESS ENVIRONMENT

The organisation which understands its business environment in a sophisticated manner can use its resources in a better way and can also adapt according to the dynamism of the business environment. Business environment is characterized by different features:

Firstly, it is **dynamic in nature**. As the factors constituting business environment are on a constant change, their impact on business also keeps on changing. Therefore, the management needs to bring new strategies at right time to cope up with the challenges being posed by these changes.

The *second* characteristic of business environment is that it is **complex in nature**. As it has diverse set of factors, events, conditions and influences coming up from different resources, they keep on interacting with each other to form new set of influences. Therefore, it is a must for a management to study these changes and then bring in new strategies.

Thirdly, business environment is characterized by its **multifaceted nature**. It is because, a certain change in business environment can be characterized as an opportunity by a person. However, on the other hand, it can also be taken up as a threat by other person. Further, the business environment has far reaching effect on continuity, survival and growth of an organisation.

TYPES OF BUSINESS ENVIRONMENT

As discussed, business environment is of two types:

1. Internal environment
2. External environment

The internal environment factors influencing the strategic decisions are value system, ethical standards of an organisation, missions, goals, objectives of the companies, organisational structure the professionalism, commitments, morale of the employees etc, financial factors and corporate image and brand equity. These factors help in bringing the strength and weakness of an organisation to the fore.

Further, the external environment is characterized by economic, demographic, legal, political, socio-cultural, natural and technological factors.
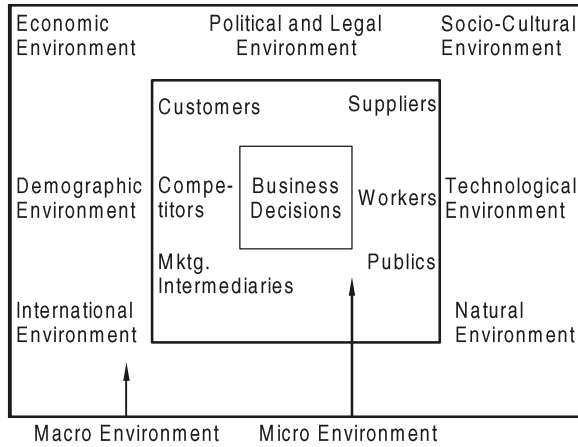
Figure 1.1 : Environmental Forces

COMPONENTS OF BUSINESS ENVIRONMENT

Business environment has two components: micro and macro components.

While the micro components are those factors that exist in direct contact of business such as the customers, competitors, suppliers, workers, marketing intermediaries and public, the macro environment is a broader term that includes economic, politico-legal, demographic etc factors. They make a direct impact on business and also on micro environment players.

MICRO ENVIRONMENT

Following are the constituents of micro environment.

1. Customers: For any business, customers are always key to success. The key categories of customers are households, individuals, business firms and other institutions that may be present at national or global level.

2. Competitors: Each business always faces competition in market and therefore, each organisation has to face a direct competition in market. Therefore, it is a must for an organisation to feel the pulse of the kind of competition it is facing in industry.

3. Marketing Intermediaries: These are channels helping organisations to bring their products to buyers. They constitute wholesalers, retailers, distributors, firms, agents etc.

4. Suppliers: This is a class of people supplying raw materials, fabricated parts etc. to the organisation.

5. Workers and Unions: The employee and employer relationship is also the key to the success of an organisation. If workers are not organised, management has the upper hand in formulating the policies and vice-versa.

6. Public: Public are groups that share an interest in business. They are environmentalists, media groups, consumer protection groups etc.

MACRO ENVIRONMENT

Its constituents are as follows:

1. Economic Environment: It is based on economic conditions such as nature of an economy, economic resources, income level etc.

2. Political and Legal Environment: Political activities define the course of action an organisation may take with changing governments.

3. Socio-cultural Environment: The customs, values, beliefs, attitude, etc. make a sharp impact on the business activities.

4. Demographic Environment: The size and composition of population, life expectancy, age, income, education etc define the demographic environment. They differ from place to place in same country and also from country to country.

5. Technological Environment: The factors related to machines and processes used in production of goods and services define technological environment.

6. International Environment: The economic, political, technological and sociological changes in the international area define the international environment.

7. Natural Environment: Ecology of a place and the availability of raw materials for a particular industry define the natural environment.

EMERGING SCENARIO OF BUSINESS ENVIRONMENT IN INDIA

Some important features of emerging scenario of business environment in India have been discussed below:

Political Uncertainty: The political stability in India in recent years has been affected by such push and pulls of coalition government at centre.

Globalization: The world has now been converted into a global village as the business is transcending the boundaries. There is an inflow of FDI(Foreign Direct Investment and technology) from across the countries.

Economic Liberalization: India, at present juncture, is witnessing economic liberalization. Earlier, India's economy was regulated and controlled one. It was the era of License Raj era. Later on reforms came to open Indian economy.

Technological Revolution: Information technology, communications and computerization are

defining the pace of growth for India at this moment.

Outsourcing: With India excelling in all streams in global world due to cheap and qualified workers, the projects are being outsourced to India from US, Australia, Canada etc.

Emerging Rural Market: Rural market is the centre of attraction for almost all the companies who are vying to expand their reach into these zones.

Stakeholders' Expectation: The customers, employees, suppliers, shareholders, investors, local community and society define the stakeholders. The management should think whether it is fulfilling to the expectations of stakeholders.

ENVIRONMENT SCANNING

Each organisation studies the part that is relevant to its business. This is called relevant environment. The process by which the organisation is monitoring the relevant environment to perceive the opportunities and threats being posed by the organisation is called environment scanning. It helps in bringing the policies that are well suited to the needs of an organisation. It comes as a key step in defining the strategic management process.

Characters of Environment Scanning

The complete scanning of business environment provides a well defined perspective to managers for forming strategies and plans. Environment scanning therefore is a holistic exercise, continuous and explanatory process.

Approaches to Environment Scanning

1. Systematic Approach: It brings a system that ensures scientific and continuous collection of information for environment scanning.

2. Ad-hoc Approach: It deals with special surveys and studies to deal with different environment issues.

3. Processed Form Approach: Here, the information is sorted in a processed way both from in side and outside the organisation.

Process of Environment Scanning

1. Identification of Key Environment Variables: Firstly, the organisation should identify the key environment variables affecting the business and economy, both from macro and micro environment.

2. Identification of Sources of Information for Environment Scanning: There could be the formal and informal sources of information that can appear from internal sources such as company files, documents, data base etc.

3. Techniques of Environment Scanning: There are different kinds of techniques such as quantitative as well as qualitative techniques, formal and systematic techniques and also the intuitive methods available with the strategist.

Factors affecting Environment Scanning

The events, trends issues and different expectations from different groups interested in business organisation affect the process of environment scanning.
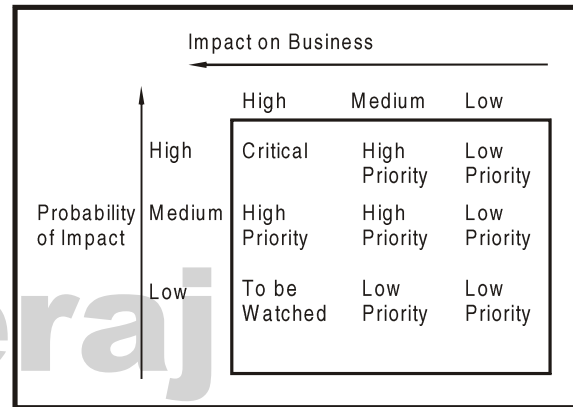
Source: Adapted from William R Boulton, Business Policy : The Art of Strategic Management, Macmillan Publishing Co., New York, 1984, p. 120.

Figure 1.2: Matrix indicating priority of environmental issues

This figure helps in identifying the high priority environment factors.

Preparation of ETOP (Environment Threat and Opportunity Profile)

The last step of the process is to structure the environment appraisal in sych a way that the opportunities and threats are well defined. Firstly, we should define the environment into different sectors and then this sector is thoroughly analysed. Each sector, if studied completely, provides its role in an organisation.

CHECK YOUR PROGRESS

Q. 1. Distinguish between economic and non-economic environments.

Ans. There are two types of environments in business terms. They are the economic and non-economic environments. They depend on different