



BUSINESS ENVIRONMENT

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Meaning of Business Environment

- The business environment refers to the sum total of all external and internal factors that influence a company's operations, decision-making, and overall performance. These factors include economic conditions, government policies, technological advancements, social and cultural trends, competitors, and market dynamics."

Strategic – Definition

- *“The process by which strategists monitor the economic, governmental/legal, market / competitive, supplier / technological, geographic, and social settings to determine opportunities and threats to their firms”*
- *“Environmental diagnosis consists of managerial decisions made by analysing the significance of data (opportunities and threats) of the environmental analysis”*

Introduction

- The term Business Environment is composed of two words 'Business' and 'Environment'. In simple terms, the state in which a person remains busy is known as business. On the other hand, the word 'Environment' refers to the aspects of surroundings.
- Business operates in **Unique** Environment and cannot function in isolation.
- Business is like **open systems** which continuously interacts with environment i.e. Business enterprises exist in and are surrounded by an 'environment' called as the business or organisational environment.
- Society and business enterprises are **mutually dependent** i.e. Business enterprises satisfy societal needs. Relationship between society and business enterprises takes place in a changing environment

Objective of Business

Purpose of Business is to create Customers or Markets which in turn caters to society

Business is **society organ** of economic expansion, growth, and change

- Profitability
- Productive Efficiency
- Growth
- Technological Dynamism
- Stability
- Self Reliance
- Survival



- Competitive Strength
- Customer Service
- Financial Solvency
- Product Quality
- Diversification
- Employee Satisfaction and Welfare

Features/ Nature of Business Environment

1. Dynamic Nature

The business environment is constantly changing due to economic, social, technological, and political factors.

2. Complex and Multifaceted

It consists of multiple interconnected components like economic policies, social trends, legal regulations, and technological advancements.

3. Uncertainty

The future of the business environment is unpredictable due to factors like market fluctuations, government policies, and technological changes.

4. Relativity

The impact of the business environment varies from business to business and country to country. What is favorable in one region may not be in another.

5. External Influence

Businesses have little control over external factors like government policies, market trends, and natural calamities.

6. Interdependence

Different aspects of the environment, such as economic conditions, political stability, and technological growth, are interrelated and impact each other.

7. Competitive Nature

Businesses must continuously analyze competitors, market trends, and customer preferences to maintain a competitive edge.

8. Opportunity and Threats

The business environment presents both opportunities for growth and threats that require strategic planning to overcome.

Importance of Understanding Business Environment

- **Helps in Decision-Making:** Businesses can make informed decisions based on economic trends, market demand, and government policies.
- **Identifies Opportunities and Threats:** Analyzing the external environment helps businesses seize new opportunities (e.g., emerging markets) and prepare for potential risks (e.g., new competitors or regulatory changes).
- **Aids in Strategic Planning:** Companies can develop long-term strategies by understanding technological advancements, consumer behavior, and market trends.
- **Ensures Compliance with Regulations:** Knowledge of legal and political factors ensures businesses comply with laws, avoiding penalties and legal risks.
- **Improves Adaptability to Change:** Businesses that monitor the environment can quickly adjust to changes such as economic fluctuations, technological advancements, or social shifts.

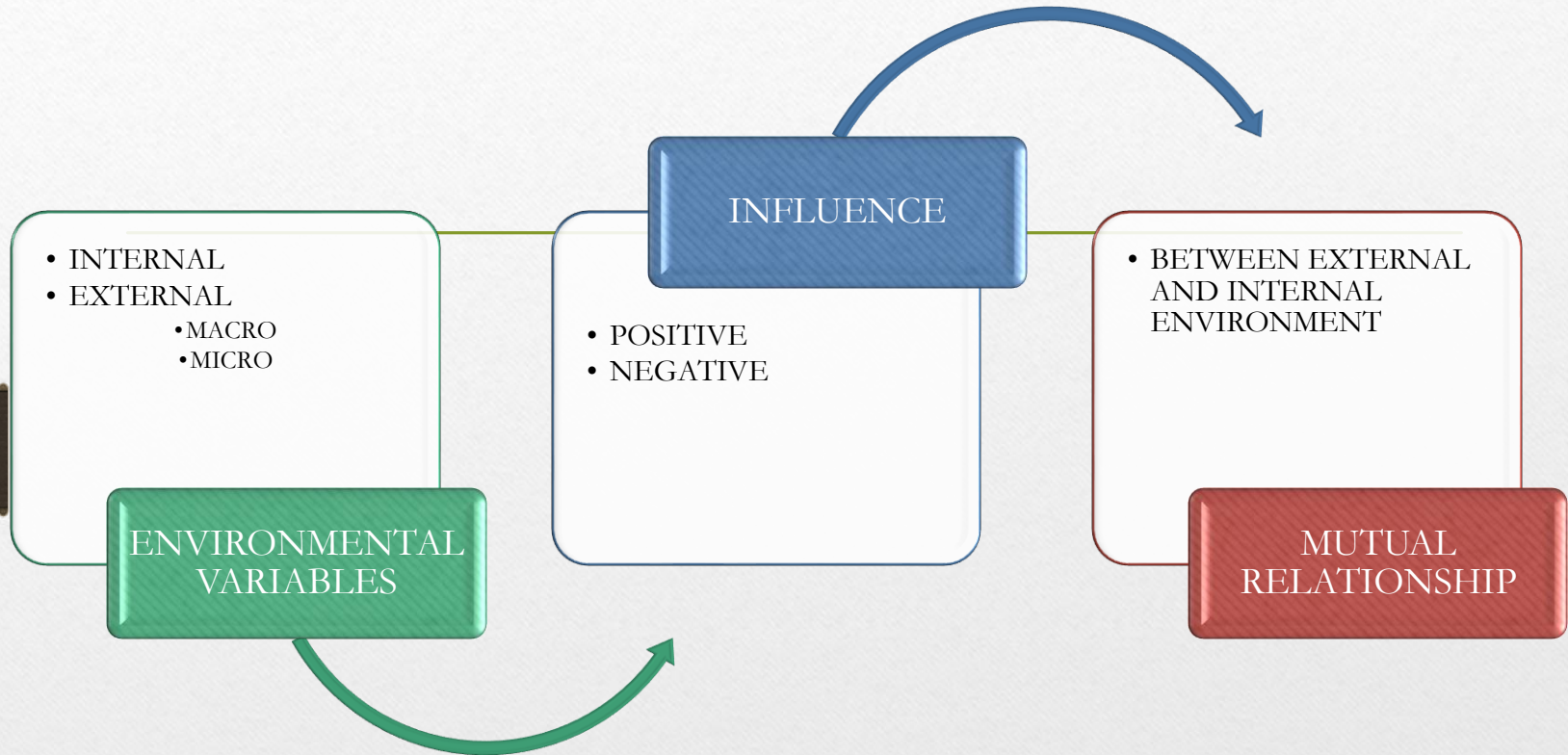
Business Influenced by.....

- Business decisions are influenced by two sets of factors:
 - *Internal factors (The Internal Environment)*
 - *External Factors(The External Environment)*
- Business Environment presents two challenges to the enterprise:
 - *The challenge to combat the environmental threats*
 - *Exploit the business opportunities*

Elements Of Business Environment

- **Internal environment** refers to those factors within an organization e.g Policies and programmes, organizational structure, employees, financial and physical resources. These factors can be changed or altered and hence are known as controllable factors.
- **External environment** refers to those factors outside the business. These factors by and large are beyond the control of a business and hence uncontrollable .e.g economic, political and socio-cultural factors.

Environment = External + Internal Forces



External is beyond Control of Individual, Industrial Enterprise, and Their Management, and vary from industry to industry and country to country. A strategist looks on environment as posing threats to the firm or offering immense opportunities for exploitation.

COMPONENTS OF INTERNAL ENVIRONMENT

Internal environment has direct impact on business. Important internal factors which have a bearing on the decisions of a business firm and which are generally controllable because the company has control over these factors:

- *Value system*
- *Vision, Mission and Objectives*
- *Management Structure and Nature*
- *Company Image*
- *Internal Power Relationship*
- *Human Resources*

INTERNAL ENVIRONMENT COMPONENTS

- **Values system:** The values of the founder/ owner of the business , percolates down to the entire organization and has a profound effect on the organization.
- **Vision and objectives:** The vision and objectives of a business guides its operations and strategic decisions
- **Management structure:** The structure of management/board and their style of functioning, the level of professionalism of management, the composition of the board are the various factors which affects the decision making.
- **Company Image and Brand Equity** - The image of the company matters while raising finance, forming joint ventures or other alliances, soliciting market intermediaries, entering purchase or sale contracts , launching new products etc.

Internal Power Relationship - Factors like the amount of support the top management enjoys from lower levels and workers, share holders and Board of Directors have important influence on the decisions and their implementation. The relationship between the members of Board of Directors, and CEO is also a critical factor.

Human Resources - The characteristics of the human resources like skill, quality, morale, commitment, attitudes etc. could contribute to the strength and weakness of the organization. The involvement, initiative etc. of the people at different levels may vary from organization to organization. Ex: Some organizations find it difficult to carry out restructuring or modernization because of resistance by employees whereas they are smoothly done in some others.

External Environment

MACRO ENVIRONMENT

- Demographic
- Economic
- Government
- Legal
- Political
- Cultural
- Technological
- Global

MICRO ENVIRONMENT

- Consumer / Customer
- Competitors
- Organization
- Market
- Suppliers
- Intermediaries
- Publics

Microenvironment

- Also known as *task environment* and *operating environment*
- It includes

 - Consumers / Customers
 - Competitors
 - Organization
 - Market
 - Suppliers
 - Intermediaries
- More intimately linked with the company than macro factors
- The micro forces need not necessarily affect all the firms in a particular industry in the same way.
- Some of the micro factors are particular to a firm.

(Micro Environment)

CONSUMERS / CUSTOMERS

- Who are the customers and what benefits they are looking at?
- What are their buying patterns and buying habits?
- Difference between customer and consumer?

COMPETITORS

- Who are competitors (competing for both resources and markets)?
- What are their present strategy and business objectives (direct and indirect competition)?
- Who are most powerful and aggressive competitors?

ORGANIZATION

- People occupying different positions and their background (their varied interests)?
- Analyzing objectives, goals and resource availability?
- Groups influencing an organization (Owners, Board of Directors, and Employees)?

MARKET

- Market actual and potential size, growth prospects and its attractiveness?
- Study of Cost structure, price sensitivity, technological structure and distribution system?
- Is market mature?

SUPPLIERS

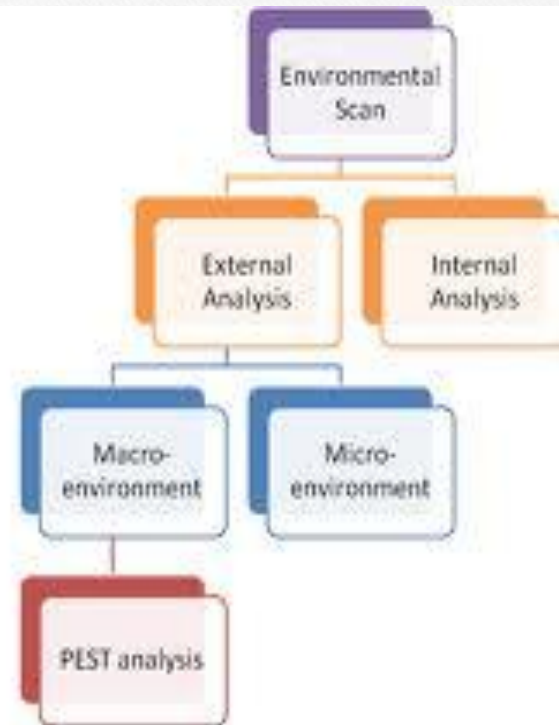
- Suppliers are important (provides raw material, components, and services)?
- Suppliers own bargaining power affect cost structure of the industry?
- Outsourcing or In house production depends on supplier environment?

MARKET INTERMEDIARIES

- Major influence (middle man, marketing agencies, financial and physical intermediaries)?
- Consumer is not aware of manufacturers?
- Adds to cost structure?

Macro Environment

- Consists of larger societal forces that affect all the actors in company's micro environment-namely :
 - Demographic
 - Economic
 - Political - Legal
 - Socio – Cultural
 - Technological
 - Natural
 - Global
- Also known as *Societal Environment* – It includes general forces that do not directly touch on short-run activities of the organization but that can, and often do, influence its long-run decisions.



Components of Macro Environment

- **Demographic Environment** :Denotes characteristics of population in area (race, age, income, educational attainment, asset ownership, employment status, Size, growth rate, age composition, sex composition of population, family size, educational levels, economic stratification of the population, language, caste, religion, and location).
- **Economic environment**: The nature of economic system The economic policies of a nation Economic indices Development of financial markets
- **Socio-Cultural environment** Customs, beliefs & values Demographic values like size, composition , literacy level. Caste system of the society Lifestyle of people, taste and preferences.
- **Political and Legal environment** The foreign policy of the country The constitution of the nation Legal frame work of business and their degree of flexibility The image of the leader and the country in the international area

- **Geo-physical environment** The availability of natural resources like minerals , oil etc. The weather and climatic conditions
- **Technological environment** The level of technology available within the country Rate of change in technology . Technology adopted by competitors Technological obsolescence
- **Global environment** Differences in language and culture Differences in currencies Differences in norms and practices Differences in tastes and preferences of people The tax structure relating to import and export. Differences in the degree of adoption of technology.

*Thank
You*