

# BUSINESS ENVIRONMENT

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# BUSINESS ENVIRONMENT

Business environment encompasses the climate or sets of conditions, economic, social, political or institutional in which business operations are conducted.

Thus, business environment encompasses all those factors (internal and external) that affect a company's operations and include strengths, weaknesses, internal power relationships, orientations of the organization, nature of economy and economic conditions, socio-cultural factors, demographic trends, natural factors, global trends and cross border development, clients and suppliers, technological developments, laws and government activities.

Features of Business Environment-

- (1) Relativity      (2) uncertainty      (3) Dynamic Nature

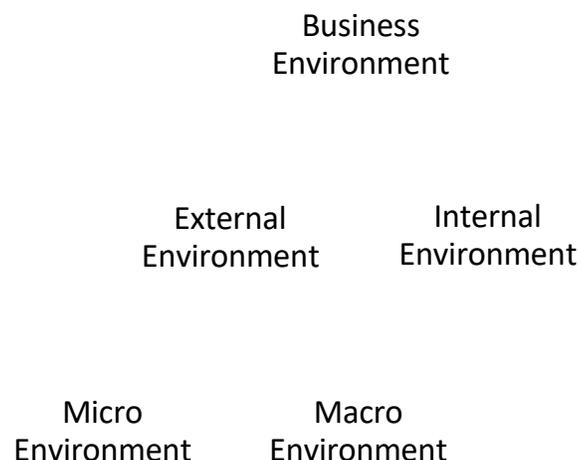
Business environment consists of the surrounding factors that either help or hinders the development of business. Business starts, operates and die in an environment.

Specific environment:

- It effects individual enterprise directly.
- Investors, customers, competitors and suppliers

General environment:

- It has impact on all the business enterprise.
- Social, political, legal and technological etc.



Internal Environment: It refers to the factors internal to the firm i.e. factors existing within a business firm. These factors are generally controllable because the company has control over them. Important internal factors:

- Promoters' / Shareholders value
- Mission/ Objectives
- Management Structure
- Internal Power relationship
- Company Image/ Brand Equity
- Financial Capability
- Technological Capability
- Personnel Capability
- Marketing Capability

External Environment:

- It refers to factors outside the business.
- External aspects of the surrounding of business enterprise, which have influence on the surrounding of business enterprise
- It is generally uncontrollable and impact all the business in the economy.
- External environment can be categorized into two parts like micro and macro environment.

Micro Environment:

- Also known as task environment
- Those factor/ forces in the immediate vicinity of an organization that influence its functioning.
- The micro forces need not necessarily affect all the firms in a particular industry in the same way.
- Important performance in the Micro Environment:
  - (1) Suppliers: Business enterprise requires a number of suppliers, who supply raw materials and components to the company.
  - (2) Customers: They are highly influential as they are the central point of every business. Success of business largely depends on identifying the need, desires, tastes liking etc of customers.
  - (3) Market intermediaries: Every business enterprise is assted with market intermediaries, which include agents, brokers, who help the company to find customers. These acts as a link between company and final consumers.
  - (4) Competitors: Activities of a business adjust according to the actions and reactions of a competitor.
  - (5) Public: Any group that has actual or potential interest in the business has its impact on the business i.e growth of customer groups may effect the working of a newly developed business.

Macro environment: Major external and uncontrollable factors that influence an organization's decision-making and affects its performance and strategies. When the macro environment is uncontrollable, the

success of a company depends on its adaptability to the environment. The macro environment is also known as general environment and as remote environment.

Components of Macro environment:

- (1) Economic Environment
- (2) Political Environment
- (3) Socio-Cultural Environment
- (4) Technological Environment
- (5) Legal Environment

#### COMPONENT OF MACRO-ENVIRONMENT

Economic Environment	Political Environment	Socio-cultural Environment	Technological Environment	Legal Environment
Economic System <ul style="list-style-type: none"> <li>• Capitalism</li> <li>• Socialism</li> <li>• Mixed Economy</li> </ul>	Ideology of government	Culture, social attitude and values	Research and development	Rules and regulation which formed to regulate the businesses
Financial System <ul style="list-style-type: none"> <li>• Money market</li> <li>• Capital Market</li> </ul>	Political Establishment	Demographic Family structure Social awareness	Innovation	<ul style="list-style-type: none"> <li>• Employment legislation</li> <li>• Environment legislation</li> </ul>
Economic policies <ul style="list-style-type: none"> <li>• Monetary Policy</li> <li>• Fiscal Policy</li> <li>• Industrial Policy</li> </ul>	Political Stability	Life style Birth rate and Death rate	Product Technology	<ul style="list-style-type: none"> <li>• Consumer legislation</li> <li>• Competition legislation</li> </ul>
Economic Condition <ul style="list-style-type: none"> <li>• National Income</li> <li>• AD &amp; AS</li> <li>• Saving &amp; Investment</li> <li>• Unemployment</li> </ul>	Political Relations	Consumption habits	Modernization	<ul style="list-style-type: none"> <li>• Social legislation</li> <li>• Health and safety legislation</li> </ul>

**ECONOMIC ENVIRONMENT:** It refers to all the economic factors that affect a firm and its business. It consist of distribution of national income, Growth rate, Interest rate, economic system, balance of payment, money supply, inflation , saving rate, Unemployment, taxes, exchange rate, foreign trade stages of business cycle.etc.

Business cycle means economy fluctuations in production, trade and general economic activity.

**SOCIAL ENVIRONMENT:** It influences all aspects of human behaviour and is pervasive in all facets of business. All those social factors that influence the business operation. It consist of Culture, Attitude & belief, demographic, family structure, social awareness, life style, consumer habits, ethical and religion, Birth rate and death rate and education etc.

Culture means ways of living, build up by a group of human beings that are transmitted from one generation to another.

Attitude means a learned tendency to respond

Belief means an organized pattern of knowledge that an individual holds to be true about the world.

Demographic means structure of population, population size, growth rate, age composition, sex composition, caste, religion, rural and urban.

**POLITICAL ENVIRONMENT:**

- It comprises political stability and other policy of government.
- Ideology inclination of political parties, personal interest of politicians, influence of party forums etc.
- It includes all government agencies and groups that influences or restrict individuals or organizations.

Role of government in business activities: The government plays an important role in business activities in following ways.

- Permission to form
- Contract enforcement
- Consumer protection
- Employee protection
- Environmental Protection

Ideology of government: Nehru – Transformation of agrarian economy into industrial economy

Indira Gandhi – State become the active, agriculture sectors.

Narendra modi- Swachh bharat

Political establishment means single party, multiple party, one party dominated system.

**TECHNOLOGICAL ENVIRONMENT:**

- Technology is the knowledge or methods that are necessary to carry on or to improve the existing production or distribution of goods.

- The progress of business depends on the level of technology available in a country which gives a massive impetus to the economic revival. It also indicates the pace of research and development.
- Technological change brings both opportunities and threats to a business.
- There is always the advantage of assessing the technological environment and embracing the new technology.
- This can make your product better bring down costs, edged out the competition, increase production capacity.
- But at the same time, such changes if not adopted by the business can make them obsolete and out of fashion very quickly.

Example:

- (1) Photocopying has ruined the carbon copy business.
- (2) Television has adversely affected radio
- (3) Window phones are ruined over the android version.
- (4) Trends towards introducing robots to improve productivity.

**LEGAL ENVIRONMENT:** Legal environment means the rules and regulations, which are formed to regulate the business. Laws are formulated to smoothen the working environment of the business. In every country, business can be started and opened within the framework of the legal system. Every nation has its own legal framework

Governments want to encourage business activity, but they also need to pass laws and put in place rules and regulation to control business activity and avoid undesirable outcomes or negative externalities. The legal environment therefore impacts on all business behavior and can be split into a number of different areas:

**Employment Legislation:** Rules, regulation and laws concerning the employment of people such as unfair dismissal, equal pay, sex discrimination, race discrimination, disability discrimination.

**Environmental Legislation:** Laws, rules and regulations concerning the environmental impact that then operations of firms create.

**Consumer law:** businesses sell to consumers and it is important that consumers have protection to ensure they are not misled or treated unfairly by firms.

**Competition legislation:** Competition is a healthy way to ensure that prices are kept down and that businesses innovate. Without competition firms may be in a position to exploit consumers and so government often legislate to try to ensure competition is fair and to prevent the development of monopolies.

Social legislation: Here government attempts to promote the consumption of merit goods, which enhance human welfare such as education and health services and discourages or prevents the consumption of demerit goods such as tobacco, and petrol.

Health and safety legislation: providing safe working conditions, a written safety policy and a recognized training programme for health and safety.