# BUSINESS ENVIRONMENT: A NOTE

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**Abstract -** ***Business environment is an ever changing process. Organizations need to restructure themselves with the changing business environment. The impact of the business environment on any organization is very deep and intense. Business environment consists of different factors broadly classified as external and internal factors. Literature on the influence of environment on business strategies is conflicting in nature. Some studies give importance to internal factors more than external factors while there are other studies which prefer external factors over internal. Although different studied give importance to different factors, but almost all studies agree that both internal and external factors play a role in the strategy formulation process. Strategies of firms differ from company to company also from industry to industry. The difference in strategies gets reflected by the performance of the organization which can be measure using different methods.***

***Key Words:*** *Business Environment, Internal, External*

## 1. BUSINESS ENVIRONMENT

"Environment literally means the surrounding external objects, influences of circumstances under which someone or something exists" (Shaikh, 2010). Selznick (1948) defined the business environment "as flows of information relevant to goal setting and decision-making through managerial perceptions." Duncan (1972) defined the business environment as "the totality of physical and social factors taken into consideration by a firm for making decisions. The environment of any organization is the aggregate of all conditions, events and influences that surround and affect it." Business environment is an ever changing process. Organizations need to restructure themselves with the changing business environment. The impact of the business environment on any organization is very deep and intense. Business environment consists of different factors broadly classified as external and internal factors. Environmental factors change from country to country; industry to industry even, it differs from one region to another.

Companies today are in the forefront of creating social wealth. The survival and success of a firm depend upon its innate strength-the resources at its command, including physical resources, financial resources, skills and organization-and its adaptability to the environment. Strategies are the most important tools of any organization. Strategies not only link a business organization to its environment, but at the same time it helps to achieve its goals. Organizations try to resource from its internal and external environment. If an organization fails to connect itself to its environment the result is decay and poor performance of the firm. The strategies of firms differ from one another. Firms are influenced by internal and external factors. Internal factors generally describe factors which are within the firm and more specifically factors controlled by the management. External factors on the other hand, are mostly industrial factors upon which an individual firm does not have direct control.

Business environment can be classified into two major categories: the external environment and the internal environment. The internal environment comprises physical and social factors within the boundaries of a firm; the external environment comprises correlating factors existing outside the boundaries of the firm. As such, the external environment refers to phenomena not in control of the firm and is classified into "remote" and "task" environments. The remote environment is comprised of political, socio-cultural, economic, ecological, and technological categories, while the task environment comprises customers, suppliers, competitors, and regulators (Dill, 1958; Bourgeois, 1980; Olsen, et al 1998).

## 2. INTERNAL ENVIRONMENT

The resource behavior, managerial philosophy, corporate culture, organizational behavior, ownership structure, strength and weakness, synergy and distinctive competencies constitute the internal environment. All these together determine the organizational capability which gets reflected in terms of strengths and weaknesses in different functional areas of an organization. Five areas which constitute the building blocks of internal environment are operations, personnel, marketing, finance and general management.

**Operations Capability:** Operations capability of a company is decided by its production capacity. Efficient use of raw material and related aspects which deal with a company's capacity function are the cornerstone of an organization's operations environment.

**Personnel capability:** Human resource of any company is a very important component of its internal environment.

Success and failure of any company highly depend on the skill, quality, quantity and motivation of its human resources. Participation of employee at different stages of decision- making, Employee Stock Option Plan etc. reflects the growing importance of human resource management. The overall organizational culture and also the level of communication in an organization influence the personnel capability of an organization. The involvement and initiatives of the employees of any organization varies from firm to firm and it also defines the strength or weakness of any firm.

**Financial capability:** Financial capability of a firm depends on the efficient use of its fund. Availability, usage and management of funds are important factors of a firm's financial capability. Some of the important factors which influence the financial capability of any organization are as follows:

Factors related to the sources of funds like procurement of capital, working capital availability, financing pattern, capital credit availability, and relationship with lenders, banks and financial institutions.

Factors related to uses of funds like capital investment, fixed asset acquisition, relationship with shareholders etc.

Factors related to management of funds like financial accounting and budgeting management, state of financial health, cash, control system, inflation etc.

The factors described above are the most important factors of an organization's financial capability. Absence or presence of those few factors decides the strength and weakness of any business organization.

**Marketing capability:** Pricing, promotional and distributional strategies are the fundamental elements of a company's marketing capability. The better the sales figure of a company the better is the company's marketing capability.

**General management capability:** The responsibility of general management relies mostly on the executive management board of any company. General management deals with the overall development and performance of the company. The attitudes and values of the top management have direct impact on the objectives and functional aspects of the company. General management relates to the integration, coordination and direction of the functional capabilities of the organization. The role of the top management is also to lay down broad strategies of the company. Organizational structures, professional attitude of the top management are important factors which influence business decisions.

The role of the board of directors of any company is of utmost importance. Some studies have established that there is a direct relation between board quality and firm performance. The shareholding pattern could have important managerial implications. There are very large companies where the majority of the share is held by the promoters and there are large firms where the promoters' position is very vulnerable. Financial institutions have a large share holding in many Indian companies. The stand of nominees of financial institutions and the relation between the members of top management are other important aspects of general management.

## 3. EXTERNAL ENVIRONMENT

This includes factors which are beyond the control of the management or the firm. This environment is not firm-specific rather it applies to every firm in the same industry. It considers the overall industry situation. External environment is further classified as micro and macro environment.

### 3.1 Micro Environment

**Customers:** Customers are the main component of any company. Without customers running a business becomes an empty gesture. Thus, the most important task of any company is to retain its customers. Another major objective of any business organization is customer satisfaction. Without customer satisfaction, business can't grow and prosper. Targeting and acquiring new customers is the sole motivation behind every business decision of any business organization.

**Competitors:** A firm's competitors include all other firms those who target for the discretionary income of the consumers. Competitors influence each other's business policies and strategies. For any product launch a company has to take care of other firms. Without any competition a market becomes monopolistic in nature, thus market imperfections become very prominent. Competitors also influence each other's business decision.

**Supplier Environment:** Suppliers of raw material and components are very important strategic link of any business organization. How efficiently or inefficiently an organization handles the suppliers gets reflected in the balance sheet of any company. For the smooth functioning of a company it is important for any organization to source materials from several suppliers instead of one. Maintaining proper balance and interactions with different suppliers becomes an important aspect of any business organization. There are several factors that influence the supplier environment those are reliable sources of suppliers, energy and finances used for production of final goods from raw materials and transportation facilities. Very often supplier environment helps in implementing different strategic decisions for the company.

**Financers:** The behavior, role and attitude of the financers become important when we analyze the micro environment of a firm. The strategies, risk taking mentality, non-financial help etc., of financers affect the performance of any company.

### 3.2 Macro Environment

**Social Environment:** The social environmental factors consist of culture, values, customs and traditions. Culture has an impact on buying behavior, eating habits and overall consumer behavior. Marketing strategies of any company develop based on consumer behaviors. Social and demographic factors such as gender and age, family, peer relationship, socialization etc. helps to set up the strategic management decisions of any company. Based on these social factors companies target consumers and positions its products. Education, customs, values, tastes and preferences- all of these factors directly or indirectly affect any business process.

**Political Environment:** The Political environment is closely related to the economic environment of any country. Several economic decisions are taken based on the political relations between different states and among different countries. How much control government should have on the economic affairs of any country is decided based on the prevailing political environment of that country. Not only the economic environment, but the regulatory environment also depends on the political condition of the country which has a second orderly influence on the business. State politics also play a major role. Inter-state rivalry or co-ordination has an impact on a company which is trying to build a national image.

**Publics:** In an age of information the role of media has become very important. Media, civil society, NGOs all can be labeled as publics. These publics directly or indirectly influence the function of companies Very often NGOs take up the cause of environmental pollution caused by industrial establishments. Media too has the capacity to make or break a company's image.

**Economic Environment:** The economic environment of a country consists of the prevailing economic structure and economic stage of the country at a given point of time. Economic indices like per capita income, investment, rate of savings etc. signals the economic stage of any country. Based on structure an economy could be socialist, capitalist or mixed. Each structure has certain characteristics which has a bearing on the business operations of a firm. Monetary policy, fiscal policy, industrial policies, budget plan, 5 year plans etc. are vital components of the economic environment. Patterns related to the areas of production and distribution of wealth depends on the economic structure of the country and has an impact on the business of an organization.

**Regulatory Environment:** Government by virtue of its rules and regulations, controls the functioning of markets. The control of government on the functioning of the economy varies from one country to another. Nevertheless the rules, regulations and economic activities of the government constitute the regulatory environment of any country. There is no room to deny that the constitutional framework of the economic policies of the government directly influences the operation of any business organization.

**Technological Environment:** Technology plays a very important role in the running of a company. Knowledge related to the use of material and machine for production of goods are the main components of the technological environment. Some very important aspects of technological environment are the man-machine interface and the impact of technology on human beings. The state of technological development varies among different sectors of the industry. Development of information and communication technologies facilitate fast cross border spread of cultures, significantly influencing attitudes, aspirations, tastes and preferences. This has significant implication for business.

**Global Environment:** With the rise of global market the nature of competition among firms have transformed from local to global. Companies are always in the hunt for customers all around the world. The basis of competition is the service or the quality of their products. Almost every business small or big indirectly or directly is affected by forces of globalization. Among these are:

A globally integrated network between firms in terms of relationship.

Global interlocking of different systems of information technology, financial systems and telecommunication have become critical components of the global economic competition.

Apart from the above mentioned few other global factors such as WTO principles and agreements; other international conventions/ treaties/ agreements/ declaration/ protocols etc; economic and business conditions/ sentiments in other countries etc. affect a business. Similarly, there are certain developments, like a hike in the crude oil price have global impact.

WTO principles and regulations have far-reaching implications for Indian business. Economic condition in other countries may affect the business. Recession has special importance in this context. International political factors can also affect business, like war or political tension or uncertainties, strained political relations between the nation and other countries.

It is worth mentioning here that the different factors of the environment do not work independently but rather affects each other in several ways. It is the combination of different factors which has an impact on the firm. For example, market as an environmental factor does not function in isolation but it is dependent on factors such as buyer motivation or the general state of the economy.

## 4. ROLE OF MANAGEMENT

As the business environment changes in response to globalization, information technology, communications and technological innovations; new relations and realities come into existence. These new relationships and realities, lead to the emergence and creation of new roles, as well as, different forms and modes of action and response. Together they give rise to, and define, a new and different competitive paradigm, i.e. new rules of conducting business and playing in the competitive business games.

In trying to cope with today's business environment, firms face numerous unprecedented managerial challenges. They are expected to continue and simultaneously, excel at managing cost, quality, innovation, delivery, flexibility, performance and human resources. They are impelled to re-examine critically, their existing structures, functions, processes and control systems, toward redesigning them around customer needs and expectations. They are compulsively led to rethink their entire businesses, and change direction, in order to come to terms with new and emerging competitive realities. They are required to be both efficient and effective, low cost and high quality producer, and creative innovator, at the same time. They need to be able to keep pace with continuous change, on the one hand, and meet effectively its challenges, on the other. The cost of failure is decay, exit or extinction.

Several studies on corporate failure suggest that management (including directors responsible for the overall management of the corporation) is the source of most problems initiating corporate failure. As stated above the business environment consists of suppliers, customers, investors' etc. they are the prime stakeholders of any company. The way the management deal with different stakeholders of the company influence the growth or failure of any company. The role of the management is to strategically deal with the company's stakeholders and position the company accordingly. The skill and motivation of the top management determine how a company is going to adjust against its internal or external environment. Failure to anticipate crisis, rigidity and inflexibility in attitude, failure to coordinate a group, inexperience, misuse of assets, and overestimation of growth can all undermine the effective performance of management. It is the duty of the management to formulate financial, strategic and overall corporate policies. One can easily say management can make or break a company as the success and failure of any company largely depends on the hands of the management.

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