

BUSINESS ENVIRONMENT

Introduction to Business Environment

To commence with, we need to understand the basic concept of environment. Environment can be termed as the surroundings or the conditions in which any being lives. Similarly, *business environment can be defined as the sum total of all internal and external factors that affect a business's operations. These factors are interconnected and the changes in one factor can affect others.* This creates a complex and dynamic environment that businesses need to adapt to in order to sustain in the competitive markets.

Definitions:

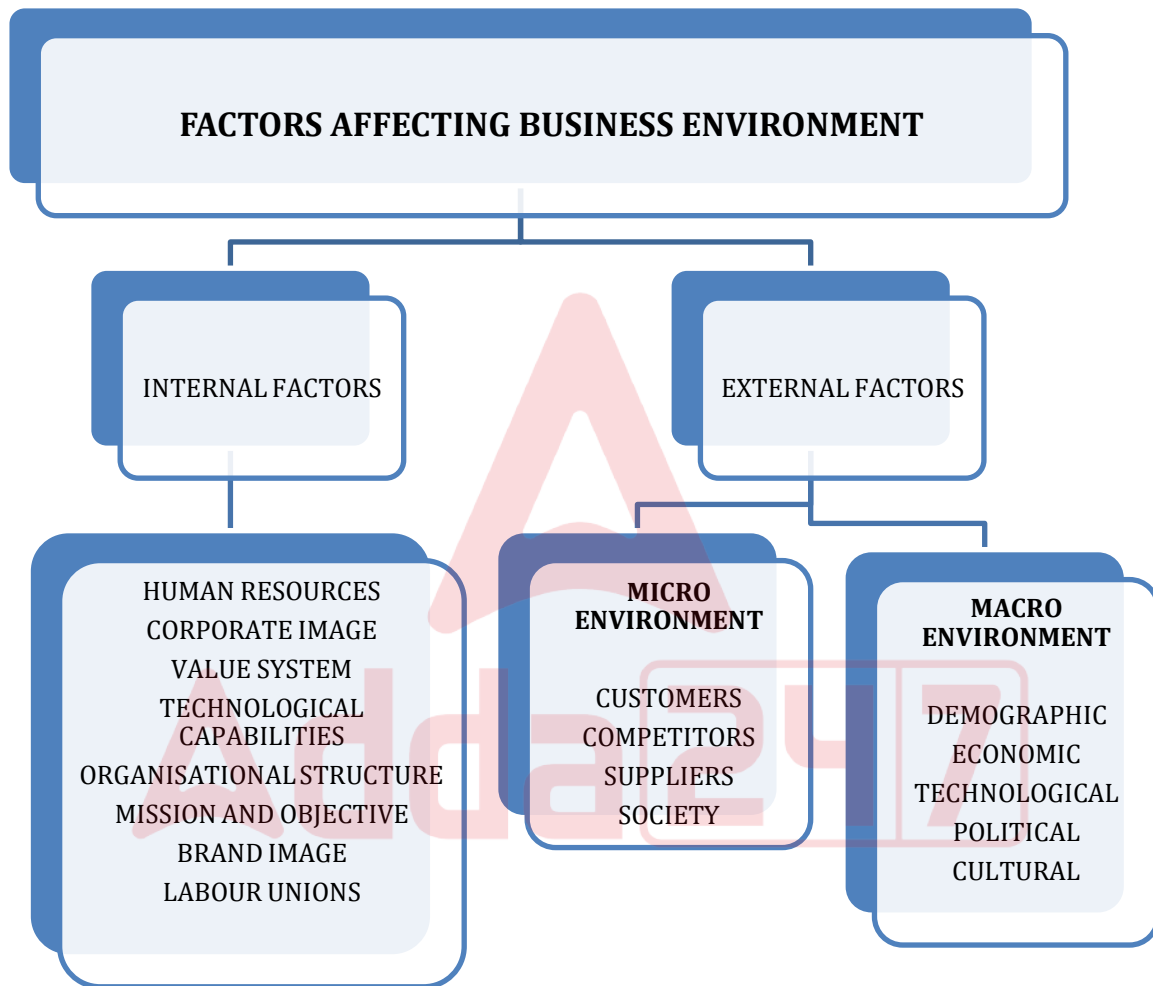
- Business environment is an aggregate of all conditions, events and influences that surround and affect the business. – *Keith Davis*
- The total of all things external to firms and industries which affect their organization and operation. – *Bayard O. Wheeler*
- Business environment encompasses the climate or set of conditions – economic, social, political or institutional in which the business operations are conducted. – *Arthur M. Weimer*

Importance of Business Environment

- The study of business environment is beneficial to the businesses in the sense that it can make one realize and **recognize the opportunities and challenges** the business might face in the coming time. This can significantly **improve the performance of business**.
- Also, in today's contemporary world, a lot of businesses are emerging which gives rise to competition. In order to **survive in the competitive market**, the study of the internal and external factors that critically impact the business becomes a **prerequisite for any firm's success**.
- Lack of knowledge about such factors can lead to losing many profitable opportunities to the competitors as **early identification of threats and opportunities provide an advantage to the firm** by identifying the opportunity at first and therefore boosting its market share.
- Furthermore, studying of business environment can aid the business in **tapping the useful resources** beforehand which would be needed by business in the near future.
- Business environment is highly dynamic. Once a business gets used to altering its strategies and policies according to the changing scenarios, it helps to **cope up with the rapid and unprecedented changes** in future which proves to be highly favorable for the firms.

- Last but not the least, the detailed study of changes in environment **provides a direction to the business in framing policies and strategies** that are suitable for the growth and expansion of the same.

FACTORS AFFECTING THE BUSINESS ENVIRONMENT



Detailed explanation on the factors affecting business environment

INTERNAL FACTORS

1. **HUMAN RESOURCE:** The quality of human resource i.e. the personnel including employees, labor, managers and the executive managers directly influence the working of the business. A business should have an efficient human resource management system so that it does not affect the growth of the business.

2. **CORPORATE IMAGE:** Presenting a positive image and clearly communicating the brand values has a direct influence on the turnover and profit earning capacity of the business. This creates a meaningful image in front of the customers and encourages brand loyalty. As a result, customer retention will take place and they would prefer to buy your firm's product than that of the competitors.
3. **VALUE SYSTEMS:** An organization with a good and optimistic value system tends to survive better as compared to the one which has an unethical workplace. Complying with the business and corporate ethics is a must to safeguard an organization from internal risks like theft, forgery, scams and so on.
4. **TECHNICAL CAPABILITIES:** A modernized and developed business has greater levels of self sufficiency with respect to technical advancements and capabilities. The businesses using obsolete technological practices tend to fail after a span of time and are vulnerable to various risks.
5. **LABOUR UNIONS:** Labor laws play a vital role in today's time and age as the HRM policies have strengthened and the managers need to motivate the workforce so that they stay aligned with the goals of the organization thereby not causing any havoc and forcing strikes on the companies.
6. **ORGANISATIONAL STRUCTURE:** The complexities in the structure and line of products cause greater risks. The executives must get the risks insured and develop strategies and policies accordingly.
7. **MISSION AND OBJECTIVES:** A company must adhere to its principles and objectives and the mission should be clearly stated and not vague. The type of business decisions taken would directly affect the performance of the business in the long run.

EXTERNAL FACTORS

The external factors include micro and macro level factors. Macro factors affect the business to a greater extent and are usually uncontrollable. These factors are briefly described below.

MICRO LEVEL

- **Customers** are the greatest asset of a business. A company needs to satisfy the needs and wants of the customers and take care of their changing tastes and preferences.
- **Competitors** also play a great role in the market place. A firm should maintain a healthy competition with its competitive firms to enjoy a safe market area.
- **The suppliers** can also affect the area of the business as they can cause delay in providing the goods at times. The company should make the payments regularly to motivate them and ensuring fair trade relations and practices.
- **Society** is an indispensable component as it is one of the users of the business. The companies should fulfill their corporate social responsibilities and take special care of the fact that the natural resources remain unexploited.

MACRO LEVEL

- **Demographic factors** include the characteristics of a population that can be used to influence the accomplishment of the goals of a business or commercial ventures. The most important demographic factors for businesses constitute of age, sex, income, education level, and occupation.
- **Political factors** affect the business as local, national, and international laws, policies and regulations are integral to business operations and generate crucial outcomes. Different nations have different norms and regulations. Some government regulations support industries, thus equipping an opportunity to many firms. For example, certain businesses are exempted from paying taxes.
- **Economic factors** such as unemployment, fluctuation in exchange rates, inflation, wages, and variation in demand and supply chains typically impact an enterprise's profit earning capacity and increase their efficiency. Study of these factors can help in predicting purchasing power of customers and plan suitable marketing efforts to enhance firm's performance.
- **Technological factors** comprise of production techniques, information and communication resources, logistics, marketing and making the use of E-commerce tools. This directly impacts the operations, sales, interactions and gathers accurate database to facilitate customers, suppliers, banking institutions and competitors.
- **Social and cultural factors** consist of value and belief systems, practices, customs, traditions and social involvement of all the individuals which vividly influence the trends, fashion, marketing activities and the type of products and services of the given geographical area.

To sum up, understanding the business environment is crucial for the ones who are pursuing management studies in the context of UGC. Moreover, this knowledge is also relevant and apt for business owners and managers who can use it to adapt to changing trends and make informed decisions. Therefore, it can be contemplated that business environment covers various aspects and factors around which the business and market revolves.