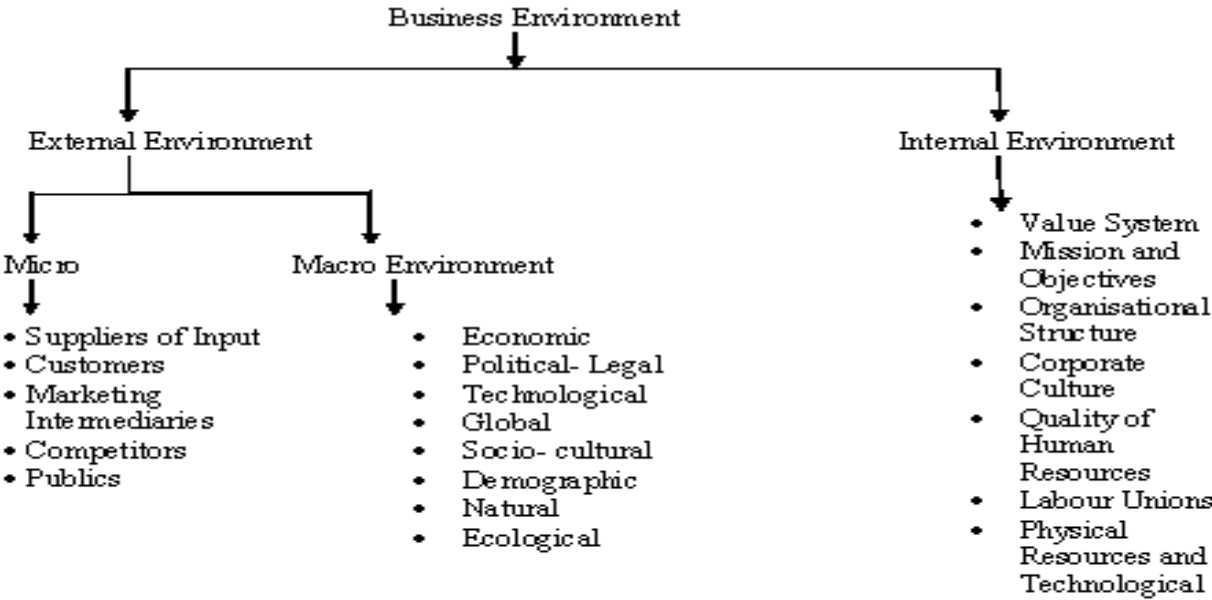


# COMPONENTS OF BUSINESS ENVIRONMENT

The various components of business environment are– (i) External Environment  
(ii) Internal Environment.



*Fig: Components of Business Environment*

- ❖ **External Environment** : External environment consists of those factors that affect a business enterprise from outside. External environment includes shareholders, competitors, customers, society, government laws and regulations, policies and technology. External environment is generally classified into **micro environment and macro environment**. Different players in the micro environment normally do not affect all the companies of a particular industry in a similar way. However, sometimes micro environment of the various firms of an industry remains almost same.

### A. **External Micro- Environment**

Micro environment includes those players whose decisions and actions have a direct impact on the company. Production and selling of commodities are the two important aspects of modern business. The various constituents of micro environment are as under:

a. **Suppliers of inputs** : An important factor in the external micro environment of a firm is the supplier of its inputs such as raw materials and components.

b. **Customers** : The people who buy and use a firm's product and services are an important part of external micro environment. Since sales of a product or service is critical for a firm's survival and growth, it is necessary to keep the customers satisfied.

c. **Marketing intermediaries** : In the firm's external micro environment, marketing intermediaries play an essential role of selling and distributing its products to the final customers. Marketing is an important link between a business firm and its ultimate customers.

d. **Competitors** : Different firms in an industry compete with each other for sale of their products. This competition may be on the basis of pricing of their products and also non- price competition through competitive advertising such as sponsoring some events to promote the sale of different varieties and models of their products.



e. **Publics** : Finally, publics are an important force in external micro environment. Public, according to Philip Kotler, “is any group that has an actual or potential interest in or impact on the company’s ability to achieve its objective.” Environmentalists, media groups, women’s associations, consumer protection groups, local groups, citizens association are some important examples of publics which have an important bearing on the business decisions of the firm.

## **B. External macro environment :**

Apart from micro environment, business firms face large external environmental forces. An important fact about external macro environmental forces is that they are uncontrollable by the management. Because of the uncontrollable nature of macro forces a firm has to adjust or adapt it to these external forces. These factors are:

a. **Economic Environment** : Economic environment includes all those forces which have an economic impact on business. Accordingly, total economic environment consists of agriculture, industrial production, infrastructure, and planning, basic economic philosophy, stages of economic development, trade cycles, national income, per capita income, savings, money supply, price level and population.

b. **Political-legal Environment** : The political- legal environment includes the activities of three political institutions, namely, legislature, executive and judiciary which usually play a useful role in shaping, directing, developing and controlling business activities. In order to attain a meaningful business growth, a stable and dynamic political-legal environment is very important.

c. **Technological Environment** : Technology implies systematic application of scientific or other organised knowledge to practical tasks or activities. Business makes it possible for technology to reach the people in proper format. As technology is changing fast, businessmen should keep a close look on those technological changes for its adaptation in their business activities.

**d. Global or International Environment** : The Global environment plays an important role in shaping business activity. With the liberalization and globalization of the economy, business environment of an economy has become totally different wherein it has to bear all shocks and benefits arising out of global environment.

**e. Socio-cultural Environment** : Finally, the social and cultural environment also influences the business environment indirectly. These includes people's attitude to work and wealth, ethical issues, role of family, marriage, religion and education and also social responsiveness of business.

**f. Demographic environment** : The demographic environment includes the size and growth of population, life expectancy of the people, rural-urban distribution of population, the technological skills and educational levels of labour force. All these demographic features have an important bearing on the functioning of business firms.

**g. Natural Environment** : The Natural environment influences business in diverse ways. The natural environment is the ultimate source of many inputs such as raw materials and energy, which firms use in their productive activity. In fact, the availability of natural resources in the region or country is the basic factor in determining business activity in it. The natural environment which includes geographical and ecological factors such as minerals and oil reserves, water and forest resources, weather and climatic conditions and port facilities are all highly significant for various business activities. For example, steel producing industries are set up near the coalmines to save cost of transporting coal to distant locations. The natural environment also affects the demand for goods. For example, in places where temperatures are high the demand for coolers and air conditioners are high. Similarly, weather and climatic conditions influence the demand pattern for clothing, building materials for housing etc. Natural calamities like floods, droughts, earthquake etc. are devastating for business activities.

**h. Ecological environment** : Due to the efforts of environmentalists and international organisations such as the World Bank the people have now become conscious of the adverse effects of depletion of exhaustible natural resources and pollution of environment by business activity. Accordingly, laws have been passed for conservation of natural resources and prevention of environment pollution. These laws have imposed additional responsibilities and costs for business firms.

- ❖ **Internal Environment** : The factors in internal environment of business are to a certain extent controllable because the firm can change or modify these factors to improve its efficiency. However, the firm may not be able to change all the factors.

The various internal factors are:

**a. Value system** : The value system of an organisation means the ethical beliefs that guide the organisation in achieving its mission and objectives. It is a widely acknowledged fact that the extent to which the value system is shared by all in the organisation is an important factor contributing to its success

**b. Mission and objectives** : The business domain of the company, direction of development, business philosophy, business policy etc are guided by the mission and objectives of the company. The objective of all firms is assumed to be maximisation of profit. Mission is defined as the overall purpose or reason for its existence which guides and influences its business decision and economic activities.

**c. Organisation structure** : The organisational structure, the composition of the board of directors, the professionalism of management etc are important factors influencing business decisions. An efficient working of a business organisation requires that the organisation structure should be conducive for quick decision-making.

**d. Corporate culture** : Corporate culture is an important factor for determining the internal environment of any company. In a closed and threatening type of corporate culture the business decisions are taken by top level managers while the middle level and lower level managers have no say in business decision making. This leads to lack of trust and confidence among subordinate officials of the company and secrecy pervades throughout the organisation. This results in a sense of alienation among the lower level managers and workers of the company. In an open and participating culture, business decisions are taken by the lower level managers and top management has a high degree of confidence in the subordinates.

**e. Quality of human resources:** Quality of employees that is of human resources of a firm is an important factor of internal environment of a firm. The characteristics of the human resources like skill, quality, capabilities, attitude and commitment of its employees etc could contribute to the strength and weaknesses of an organisation. Some organisations find it difficult to carry out restructuring or modernisation plans because of resistance by its employees f. Labour unions : Labour unions collectively bargains with the managers for better wages and better working conditions of the different categories of workers etc. For the smooth working of a business firm good relations between management and labour unions is required.

**g. Physical resources and technological capabilities:** Physical resources such as plant and equipment and technological capabilities of a firm determine its competitive strength which is an important factor for determining its efficiency and unit cost of production. Research and development capabilities of a company determine its ability to introduce innovations which enhances productivity of workers.