BBA. IInd Year (IIIrd Sem), Subject: Workshop, Topic: Characteristics and Significances of Business Environment **Prof Rakesh Jain**

INTRODUCTION TO BUSINESS ENVIRONMENT

The progress of every business depends largely on its ability to become accustomed to environment. For instance, if the government changes its economic policies, the firm should appropriately respond to that change. Likewise, a firm should keenly observe and respond properly to the technological changes capable of rendering the existing products obsolete. Thus it can be identified that the association between business and its environment is very close and continuous.

This association helps the business firm to reinforce its capabilities and allocate its resources more efficiently. As if living beings, business too has an ecology. To survive in this vibrant ecology, a firm needs its intrinsic abilities and strengths.

Meaning and definition of Business Environment

Business Environment can be defined as the combination of internal and external factors that influence a company's operating situation. The business environment can include factors suchas: clients and suppliers;its competition and owners; improvements in technology; laws and government activities; and market, social and economic trends. Business Environment literally means all those aspects that have a bearing on the business such as its strengths, weaknesses, internal power relationships and orientations of the organization; government policies and regulations; nature of the economy and economic conditions: socio-cultural factors: demographic trends; natural factors; and, global trends and cross-border developments.

Business environment plays a key role in shaping the business decisions and strategies of a firm. The opportunities and threats for a business come mainly from its external environment which includes factors like economic, political, technological and social. Similarly, the internal factors like managerial capabilities, efficiency in resource utilization etc make an organization strong or weak.

Characteristics of Business Environment

Business environment has the following characteristics:

1. Environment is Complex

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Business environment is complex because it is continuously exposed to countless challenges, like technological disruptions, global competition, leadership change, shifting economic, social, and regulatory conditions etc. It is very stressful for a firm to survive and prosper in such an environment.

2. Environment is Dynamic Both the internal and external environments of business are highly dynamic or vibrant owing to the following:

- customer preferences keep evolving,
- New competeters enter the market.
- Arise of novel technology.
- New marketing channels.
- New resources.
- New policies.
- Changing demography.

3. Environment is uncertain.

Not anything can be assumed with any degree of certainty about the factors of the business environment because they continue to change quickly.

The dimensions of uncertainty include the following:

- *Macro-environmental uncertainty:* This is the uncertainty in the organization's general environment, including political, regulatory, statutory, and economic conditions. This uncertainty has the capacity to reduce an organization's capability for mapping out and pursuing strategic choices (Miller and Friesen 1984).
- *Competitive uncertainty:* This is the uncertainty regarding the assessment of relative powers of competitors, their future courses of action, and strategies.
- *Market (and demand) uncertainty:* This uncertainty stems from lack of clarity in the dynamics of the market and their effects on the organization's operations, and demand and supply conditions in the industry.
- *Technology uncertainty:* This uncertainty owes to change in the industry's technological resources and capabilities.

4. Relativity Business environment is related to the local conditions and this is the reason as to why the business environment occurs to be diverse in different countries and different even in the same country at different places.

5. Interrelatedness The different factors of business environment are co-related. For example, let us suppose that there is a change in the import-export policy with the coming of a new government. In this case, the coming of new government to power and change in the import-export policy are political and economic changes respectively. Thus, a change in one factor affects the other factor.

Significances of Business Environment

The business environment is complex, multifarious and vibrant in nature and has an in-depth impact on the endurance and development of the business. Having a worm's eye view on the firm's environment can be beneficial in the following ways:

a) **Revealing opportunities and threats:** Keen observation on the firm's environment will bring out the opportunities and threats hidden in the environment, so that the firm can meet challenges triumphantly.

b) **Providing guidance for growth:** Firms will be directed towards new edges of growth if it has some proper communication and involvement with its environment.

c) **Makes a firm strong or weak:** It is the internal factors of a business like employee efficiency, efficiency in resource utilization, better management of costs etc make an organization strong or weak. To be robust and resilient, a firm should keep up its internal environment solid.

d) **Continuous learning:** The management can easily confront challenges with proper environment analysis. The vibrant environment inspires managers to renew and revise their acquaintance and awareness to meet the foreseen variations in business territory.

e) **Foster impression:** A firm becomes an icon among other firms in the industry if it positively susceptible to the environment within which they are. For example, in view of the call out against environmental pollution, many firms are producing eco friendly products.

f) **Meeting rivalry:** Numerous firms face cut throat competitions in today's scenario**.** But proper environmental analysis will enable a firm to analyze the competitors' strategies and counteract effectively.

g) **Retrospection:** Proper analysis of environment keeps a firm retrospective as it can effectively spot its strengths, weaknesses, opportunities and threats.

Environmental analysis

Environmental analysis refers to the process of identifying the external and internal elements, which can affect the performance of an organisation. The analysed facts will then be used for formulating strategies and taking decisions, so as to exploit opportunities and enhance strengths, and to minimize threats and weaknesses.

Stages of environmental analysis

1. **Scanning the environment.**

Environmental scanning is primarily done for identifying the factors which may have implications on the business. This is the prime step to be done in environmental analysis. A good scanning of environment can reveal so many hidden factors in the environment.

2. **Monitoring particular factors spotted.**

In the process of scanning, some particular factors which need due attention might have been identified. At this stage of analysis, such factors or trends evolving should be undergone for keen understanding. The outputs of monitoring are therefore, a precise picture of the environmental issues, identification of tendencies for additional scrutiny and recognition of patterns demanding further scanning.

3. **Forecasting**

It refers to anticipating the future threats and opportunities for formulating strategic plans. It can be defined as Estimating the intensity, nature, and timing of the external forces that may affect the performance of a firm, disrupt its plans, or force a change in its strategies.

4. **Assessment**

Assessment refers to realizing implications or probable impacts of those factors which may cause threats and provides opportunities. Environmental analysis has some advantages like better relationship between environment and organization, recognition of opportunities, threats, strengths and weaknesses by the organization, risk identification, efficiency in operation etc.

Also it is not free from limitations. Its major drawbacks include wrong selection of variables for analysis, perceiving environmental analysis as a solution rather than a way for success etc.

SWOT Analysis

It is an important form of business environment analysis, which is accepted all over the world.

A SWOT analysis (alternatively SWOT matrix) is a configured planning method used to assess the strengths, weaknesses, opportunities and threats involved in a project or in a business venture. It is not feasible for an organization to exploit all the opportunities present in the environment due to the short of strengths and abilities. It may also fail to successfully overcome threats due to the lack of capabilities. Proper Strength, Weaknesses, Opportunities, and Threats (SWOT) analysis may reveal that the company is not efficient in particular fields of business. It can give up such business activities and concentrate more on competent areas.

A firm's strengths are its resources and abilities that can be used as a foundation for expanding competitive advantage. It includes factors like better brands, reputation and goodwill, cost reduction etc. Similarly, weaknesses include those zones where the firm is not strong. For instance, high cost structure and inefficient production processes may keep a firm weak. Opportunities are the factors which open doors to profitability and expansion for a firm, and are present in the external environment of a business. Novel technologies developed, a particular need of consumers etc can be seen as opportunities for improvement. The vibrant external environment can challenge the prosperity of an enterprise by throwing threats against it. Such threats include, a new policy of regulation by government, steeply increasing cost of raw materials etc.

In SWOT analysis, one has to identify all the four factors. Strengths should be enhanced and weaknesses should be eliminated for effectively reaping benefits of opportunities and avoiding challenges of threats.

Merits of SWOT analysis

a. It is a source of information for strategic planning.

b. Builds organization's strengths.

c. Helps to deplete firm's weaknesses.

d. Maximize organization's response to opportunities.

e. Overcome organization's threats.

f. It helps in identifying core competencies of the firm.

g. It helps in setting of objectives for strategic planning.

h. It gives a clear picture of the past, present and future aspects of the organization.

modifications in these factors.

2. External Environment

These are factors existing outside the business and are beyond its control to a large extent. The external business environment is classified again in to micro and macro environment. Micro environment consists of those factors which have a direct and intimate impact on the firm. E.g.: Suppliers and distributors of the firm. The micro environment is also known as task environment or operating environment. Certain factors like economic policies of the government; demographic factors etc affect the industry as a whole and is known as macro environment of business.

Internal Environment

The prominent internal factors which have implications on the tactics and decisions of a business organization are given below:

1. Vision, mission and objectives

Concepts like vision, mission and objectives of a company plays a key role in deciding business province, preferences, course of development, business philosophy, business policy etc. The mission of Tata Consultancy Services (TCS), that is to help customers achieve their business objectives by providing innovative, best-in-class consulting, IT solutions and services, enabled it to be one of the triumphant companies of the world.

2. Values.

Factors like mission and objectives of the organization, business policies and practices are moulded based on the values of the founders and pioneers of the organisation. Endorsing and dissemination of strong values by the whole organization leads to its success while weak value base ends up in its failure.

3. Management structure and nature Factors like organizational structure, the composition of the board of directors, level of professionalization of management etc have a sway upon business decisions and strategies. Quick decision making is easily enabled by some management structures while some others cause delay in it.

4. In-house authority liaison. It intends that certain features like support from different levels of employees to the top management, shareholders and board of directors etc are swaying decisions and strategies.

5. Human Resources

The attributes of the employees like soft and hard skills, eminence, self-esteem, dedication, attitude and aptitude etc could add to the strength and weaknesses of an organization.

6. Owners Owners are people who have invested their fund in the company and have property rights and claims on the organization. Owner can be an individual or a group of persons who created the company; or who purchased the shares from the share market. They have the right to change the company policies at any time. Hence it can be said that they are a decisive component of the internal environment.

7. Board of Directors

The board of directors is the governing body of the company who are elected by stockholders, and they are given the responsibility of administering a firm's top managers and other officials. They have crucial control over the internal environment.

8. Company image and brand equity.

The image of the company have a say in doing operations like mobilization of finance, materialization of joint ventures or other alliances, entering purchase or sales contracts, marshalling raw materials, opening new product lines etc.

9. Research and development

Good research activities undertaken by an organization is a strong internal component that can contribute to its prosperity as such a venture will enhance its reputation and can exploit first mover advantage.

10. Technological factors

Factors like introduction of new technology, its effective exploitation etc have a sway on the affluence of the business. There are a number of other internal factors like physical assets and facilities like production capacity, marketing capabilities like marketing personnel and distribution networks etc. The top management of the firm can renovate the internal environment with more strength and less weaknesses.

EXTERNAL ENVIRONMENT OF BUSINESS

External Environment

The external business environment of a firm can be classified in to micro and macro environment.

Micro Environment

The micro environment or task environment encompasses those forces in the close surrounding area of an organization that influence it's functioning. Even if it is external to an organization, micro factors need not affect all the firms in a particular industry in an equivalent manner. Some of the micro factors may be unique to a firm. It embraces the following factors:

1. Suppliers

Suppliers of raw materials, components and semi finished goods are very prominent for a firm. They operate as an important force within the micro environment of the firm.

2. Marketing intermediaries

It includes the firms that assist the company in promoting, selling and distributing its goods to final buyers. They are operating in the micro environment.

3. Customers

As far as any business firm is concerned, creation and maintenance of customers are of utmost importance. Triumph of a business principally depends on realising the needs, desire and tastes of customers.

4. Competitors

Every organization has a competitive environment. Activities of a business should be adjusted according to the actions and reactions of competitors. An enterprise will be facing direct and indirect competition from many rivalries. A firm should monitor the activities of the competitors in its micro environment and should counteract accordingly.

5. Public

Public refers to any cluster that has actual or potential interest in the business activities. Such clusters can exert influence on the business. *e.g.*, growth of consumer groups may affect the working of newly developed businesses.

6. Financiers

The term financiers include commercial banks, money lending institutions, private persons etc who have lent money for business operations. In addition to the financing capabilities, their policies and strategies, attitudes, ability to provide non-financial assistance etc are vital.

7. Regulators

Regulators are units in the task environment that have the authority to control, regulate or influence an organization's policies and practices. Government agencies are the main player of this environment.

8. Strategic Partners

They are the organizations and individuals with whom the firm is in an agreement or understanding for the benefit of the organization. Such strategic partners may influence the organizations activities in various ways.