

BBA (202-18)

Business Environment

Introduction:

The term 'business environment' connotes external forces, factors and institutions that are beyond the control of the business and they affect the functioning of a business enterprise.

These include customers, competitors, suppliers, government, and the social, political, legal and technological factors etc. Thus, business environment may be defined as the total surroundings, which have a direct or indirect bearing on the functioning of business. It may also be defined as the set of external factors, such as economic factors, social factors, political and legal factors, demographic factors, technical factors etc., which are uncontrollable in nature and affects the business decisions of a firm.

Business Environment has been defined by **Bayard O. Wheeler** as "the total of all things external to firms and industries which affect their organization and operation".

According to **Arthur M. Weimer**, business environment encompasses the 'climate' or set of conditions, economic, social, political or institutional in which business operations are conducted.

According to **Glueck and Jauch**, "The environment includes factors outside the firm which can lead to opportunities for or threats to the firm. Although there are many factors, the most important of the sectors are socio-economic, technological, supplier, competitors, and government."

Features of Business Environment

Business environment is the sum total of all factors external to the business firm and that greatly influence their functioning.

It covers factors and forces like customers, competitors, suppliers, government, and the social, cultural, political, technological and legal conditions.

The business environment is dynamic in nature, that means, it keeps on changing.

The changes in business environment are unpredictable. It is very difficult to predict the exact nature of future happenings and the changes in economic and social environment. .

Business Environment differs from place to place, region to region and country to country.

Importance of Business Environment

There is a close and continuous interaction between the business and its environment. This interaction helps in strengthening the business firm and using its resources more effectively. As stated above, the business environment is multifaceted, complex, and dynamic in nature and has a far-reaching impact on the survival and growth of the business. To be more specific, proper understanding of the social, political, legal and economic environment helps the business in the following ways:

Identifying Firm's Strength and Weakness: Business environment helps to identify the individual strengths and weaknesses in view of the technological and global developments.

1. Determining Opportunities and Threats: The interaction between the business and its environment would identify opportunities for and threats to the business. It helps the business enterprises for meeting the challenges successfully.
2. Giving Direction for Growth: The interaction with the environment leads to opening up new frontiers of growth for the business firms. It enables the business to identify the areas for growth and expansion of their activities.
3. Continuous Learning: Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in realm of business.
4. Image Building: Environmental understanding helps the business organisations in improving their image by showing their sensitivity to the environment within which they are working.
5. Meeting Competition: It helps the firms to analyse the competitors' strategies and formulate their own strategies accordingly.

Factors Affecting Business Environment

The business environment or the external forces acting on the business consists of a large number of forces. These are;

1. Demographic Factors

Demography is a study of human population with reference to its size, density, distribution and other connected vital statistics. This information is very essential in modern days for planning and development and also for framing laws relating to society and business. The density of population, the extent of their standard of living, the level of their education and the nature of their occupation etc., greatly influence the type of business the entrepreneurs could undertake. The business units require customers for its survival and growth; naturally business can thrive in populace regions, though now-a-day's transportation helps a lot in bringing the commodities to the scarcely populated areas.

2. Economic Factors

The business enterprise is affected by various economic forces which cannot be controlled by the business. These economic forces, can be divided into two categories, ie. Demand Force and Competitive Force. For a business firm to survive and thrive, it should have adequate demand for its products. At the same time, the firm has to compete with the rival firm producing similar products or substitute products.

Economic forces affecting demand:

For customers to buy the commodity of the firm, they should have the ability to buy and willingness to buy. The ability to buy a commodity depends on the income of the customer, to be very precise, the disposable income of the customer. Out of the total income, the individual has to pay taxes due to the government and the disposable income will be less if the taxes are high. Secondly, if the individual wants to save more, the amount for spending will be less. Thus, the ability to buy a commodity depends on the a) Total income earned out of the employment of the individual b) The taxes of the government and c) The savings of the individual.

An increase in tax will reduce the demand for the commodity. The attitude of the individual towards 'Saving' will affect the demand. A change in 'Price' of the commodity will affect the demand. Expectation of a further change in price or change in taxes will also affect the demand.

a) **Competitive forces:** The competitive tools are price cutting, advertisement, product differentiation, marketing strategies and consumer service.

b) **Price cutting:** Price cutting or price reduction is a method which has to be adopted very cautiously, as it may ultimately lead to price-war between firms competing, resulting in reduction of profits.

c) **Advertisement:** Advertisements in modern days have become a very powerful tool in persuading the consumers of a product to a particular brand. In monopolistic competition, a large share of the market is entrenched by firms making effective and aggressive advertisement.

d) **Product differentiation:** A firm tries to get competitive strength by differentiating its product from those of its rivals. By having special design, color, packing and features, the firm tries to get competitive edges.

e) **Marketing strategies and Consumer Service:** Modern firm adopt various types of marketing strategies to create market for their products. Installment system, credit system, hire-purchase, etc., are the prominent ways by which firms try to cut through the poor segments of the society and convert them their customers. Besides customer service like, free door delivery, quick service, after sales service, guarantee from defects up to a certain period are adopted to have more and more demand for their commodities.

3. Geographical and Ecological Environment

Geographical conditions, to a greater extent, influence the type of industries and business in a region. Generally, the people of a particular geographical region will have similar tastes, preferences and requirements. The geographical situation, the physical feature, the climate, rainfall, humidity, the vegetation, etc., decide the type of living in a particular region and only those industries which could cater to the needs of the people, could develop. In other words, geographical conditions exert profound influence on the location of the business.

Ecological is a study “dealing with the interaction of living organism with each other and with their non-living environment”. It is a science telling about the relationship of all living beings. (ie., human beings, animals, plants) with non-living beings (air, water, soil represented by atmosphere, rivers, lakes, mountains and land).

4. Social and Cultural Environment

Social and Cultural attitudes of a region influence the business organizations of the region in a variety of ways. The business practices and the management technique of the organization should cope with the social and cultural attitudes of the people.

The modern business is a social system in itself, but it is also part of a larger social system represented by society in general. Clearly, there should be some reciprocal relationship between business and this larger society. To put it shortly, the business should adopt itself to the social and cultural environment.

It is the class structure of the society. It tells about the social roles and organizations and the development of social institutions. The class-structure depend upon the occupation of the people, their education, income level, social status, their mobility, their attitude towards living, work and social relationship and above all, their attitude towards business.

Every society develops its own 'culture' which means how the members of that society behave and interact with each other in society, as well as outside society. The term culture includes values, norms, customs, ethics, goals and other accepted behavior patterns.

5. Political and Legal Environment

a) **Political Environment:** All business firms are directly affected to a greater or lesser degree by the government and its programmes. Political forces will decide the nature of business, programmes and projects to be undertaken for the development of the country. These political forces can be classified as long term forces, quick changes, cyclical changes and regional factors.

i) Long term forces denote the secular trends in business activities due to the political conditions prevailing and the adoption of a particular line of policy in business.

ii) Quick Changes consist of sudden political changes due to army coup or revolt or capturing of the government machinery by the dissident group. The quick change may also be the result of proclamation of 'emergency' or 'Martial Law' due to sudden outbreak of war with a belligerent nation. In all these cases, the business manager has to take quick decisions to adopt his business to the changed environment.

iii) Cyclical Changes denote periodical anticipated changes like 'General Election' which may change the government and consequent change in plans and programmes as well as priorities by the new Government.

Regional Factors the regional consideration may dominate the political scene. Development of agricultural or development of an industrially backward region may draw the attention of politicians and government. Consequently, special legislations or policies will be framed to help the backward regions or sector. In such changes, the business has to adopt itself by studying and estimating the risks and dangers involved in taking decisions.

b) **Legal Environment:** Business in a country can be started and nurtured to grow into big business only within the legal system of the country. In this connection, all countries of the world have a separate set of laws for the control and direction of business. The business law of the country is a complex system of regulations and intervention that form the legal environment of the business. All business managers should have the knowledge of business law for taking management decision.

6. Technological Environment

Technology means “the systematic knowledge of the industrial arts”. ‘Technique’ denotes the method of performance. These two are increasingly used in modern literature on industrial production. The present age is the age of technology. Technology affects the business in two ways.

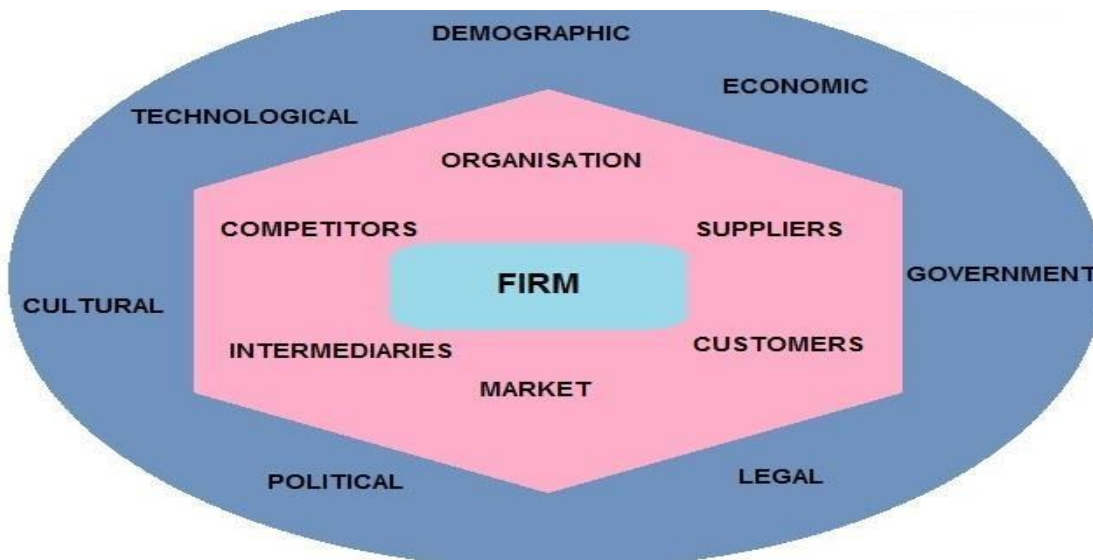
Its impact on the society and

Its impact on business operation

(Source: **<https://www.mbaknol.com/international-business/concept-of-business-environment/>**)

Types of Business Environment

Business Environment can be classified in two categories Namely:



Internal Environment: Internal Environment refers to the factors existing within a business firm. These internal factors are considered to be controllable because the enterprise has control over these factors. The main internal factors which influences Business Decisions are as follows:

- i) Culture: The values, beliefs and attitudes of the founder and top management of the company exercises a strong influence on what the company stands for, how it does things and what it considers important. When the value system is shared by all the members, the organization is likely to be more successful.
- ii) Mission And Objectives: The Objectives of all the firms is assumed to be Profit Maximization in the long run. But Mission is different from this narrow objective of profit maximization. Mission is defined as the overall purpose or reason for existence which guides and influences a firm decisions and economic activities.
- iii) Top Management Structure: The structure of the organization also influences the business decisions. The composition of the board of directors, the degree of professionalization of management and the organizational structure of a company have a important bearing on its business decisions.
- iv) Power Structure: The internal power relationship between the board of directors

and the Chief Executive Officer is an important factor. The extent to which the top management enjoys the support of shareholders and employees at different levels, also has an important bearing on decision making.

External Environment:

External business environment, which is typically broken down into two categories.

The general environment, which includes an array of external influences, such as the environment, technology, economic conditions, demographics, sociocultural forces, political or legal factors.

The task environment, which consists of a company's ability to acquire necessary materials, such as products for making the clothing, or revenue from sales and their ability to deliver outputs as exporting goods.

External Environment refers to the factors existing outside a business firm. These External factors are considered to be uncontrollable because the enterprise has No or Partial control over these factors. Further, External Environment can be divided into two types Namely:

i) **Micro Environment:** Micro Environment consists of the factors in the company's immediate environment. These factors affects the performance of the company and its ability to serve the customers. Micro Environment consists of the following:

a) **Customers:** Customers constitutes an important segment of the micro environment. Customer is the king of the market and every business exists to serve its customers. A business has no meaning until and unless there are customers to serve.

b) **Suppliers:** Suppliers are the person who supply various inputs such as money, raw material, fuel, power etc. and help in the smooth conduct of business. Further, firms should have more than one supplier so that changes in the policies of one supplier does not effect their production schedules.

c) **Competitors:** Competitors form an important part of the Micro Environment. Business Firms compete to capture a larger share in the market. They constantly watch the competitors policies and adjust their policies to gain customer confidence.

d) **Company Image And Brand Equity:** The image and Brand Equity of the company plays a very important and significant role in raising finance, forming alliances, choosing dealers and suppliers etc.

ii) Macro Environment: The Macro Environment consists of the Economic and Non-Economic variables that provide opportunities and threats to firms. This is largely uncontrollable and therefore, firms must adjust their operations to these environmental factors. Macro Environment consists of the following:

a) Political Environment: Political Environment consists of the elements relating to government affairs. The political environment provides the framework within which business has to function. The main components of Political Environment are:

- The Constitution of the Country.
- Political Organization: includes Philosophy of political parties, ideology of the government, nature and extent of bureaucracy, influence of primary groups etc.

- Political Stability: includes structure of Military and police force, election system, Law and order situation etc.
- Image of the country and its leaders.

b) Economic Environment: The Economic Environment consists of the economic forces that affect the business activities. These forces influence the buying behavior and spending patterns of consumers and institutions. The main components of Economic Environment are:

- Economic System: includes Capitalist, socialist and Mixed Economic System.
- Economic Policies: includes Monetary Policy, Fiscal Policy, Supply side Policy etc.
- Economic Indices: includes Gross Domestic Product, Consumer Price index, Per Capita Income etc.
- Financial Market: includes Share Market, Money Market, Derivative Market, Capital Market.

c) Social And Cultural Environment: Social Environment refers to the characteristics of the society in which a business firm exists and operates. The main components of social and cultural environment are:

- Demographic Forces: includes Size, Composition and Mobility of Population.
- Social Institutions and Groups.
- Caste Structure and Family Organisation.
- Educational System and Literacy Rate.
- Customs, beliefs, values and life styles.

d) Technological Environment: Technology is changing at a fast pace and technological environment is dramatically affecting the business environment either due to easy import policies or because of technology up-gradation. The main components of Technological Environment are:

- Rate of Technological change and Diffusion.
- New approaches to the production of goods and services.
- Use of New processes and equipment.
- Transfer of Foreign Technology.

Legal Environment: The Legal Environment consists of the regulatory forces that will affect the business activities and operations. The main components of Legal Environment are:

- Current Legislation.
- International Legislation.
- Regulatory bodies and processes.
- Tax Regulations.
- Competitive Regulations.

Natural Environment: The main components under Natural Environment are:

- Climatic Conditions.
- Agriculture, Commercial, and other Natural Resources.
- Ecological System.
- Levels of Pollution.

(Source: <https://bbamantra.blogspot.com/2018/06/business-environment.html>)

Environmental Analysis

Definition: Environmental Analysis is described as the process which examines all the components, internal or external, that has an influence on the performance of the organization. The internal components indicate the strengths and weakness of the business entity whereas the external components represent the opportunities and threats outside the organization.

Steps Involved in Environmental Analysis

Identifying: First of all, the factors which influence the business entity are to be identified, to improve its position in the market. The identification is performed at various levels, i.e. company level, market level, national level and global level.

Scanning: Scanning implies the process of critically examining the factors that highly influence the business, as all the factors identified in the previous step effects the entity with the same intensity. Once the important factors are identified, strategies can be made for its improvement.

Analysing: In this step, a careful analysis of all the environmental factors is made to determine their effect on different business levels and on the business as a whole. Different tools available for the analysis include benchmarking, Delphi technique and scenario building.

Forecasting: After identification, examination and analysis, lastly the impact of the variables is to be forecasted.

Environmental analysis is an ongoing process and follows a holistic approach, that continuously scans the forces effecting the business environment and covers 360 degrees of the horizon, rather than a specific segment.

(Source <https://businessjargons.com/environmental-analysis.html>)

Objectives of Business Environmental Analysis:

1. Help understanding Existing Environment

It is important that one must be aware of the existing environment. [Business Environment](#) analysis should provide an understanding of current and potential changes taking place in the micro environment. Micro environment specifies the type of products to be offered, the technology to be adopted and the productive strategies to be used to face the global competition.

2. Provision of Data for Strategic Decision-making

Business Environment analysis should provide necessary data for [strategic decision-making](#). Mere collection of data is not adequate. The data so collected must be used for strategic decision-making.

3. Facilitating Strategic Linking in Organizations

Business Environment analysis should facilitate and foster strategic linking in organizations.

(Source : <https://accountlearning.com/business-environment-analysis-objectives-process/>)

Limitations or Disadvantages of Environment Analysis

Environmental analysis suffers from certain limitations also. These limitations are as follows:

1. Lack of Forewarning of Unforeseen Events

Environmental analysis does not predict the future. It does not eliminate uncertainty for the organization also. Business enterprises sometimes face events, which are unexpected during analysis. Environmental analysis, however, should aim at minimizing the frequency and extent of surprises that may attack a business organization.

2. No Assurance as to Organization Effectiveness

Environmental analysis does not ensure organizational effectiveness. It acts only as inputs in strategy development and testing. Sometimes, managers place uncritical faith in the data without thinking about the data's verifiability or accuracy. If this is the case, it may lead to misleading outcome.

3. Not fully Reliable

Normally, people place too much reliance on the information collected through environmental scanning. But in practice, it is not so. When there is overloading of information, one is likely to get confused.

4. Absence of Strategic Approach

Success of any organization lies in adventure and strategic risk-taking. Environmental analysis often makes an individual too cautious in his approach and he is likely to be left behind the events. So this analysis should be strategically done.

(Source: <https://accountlearning.com/advantages-disadvantages-business-environment-analysis/>)

Impact of Culture on business

In today's global world, there are wide cultural differences, and these differences influence how people do business. Culture impacts many things in business, including

The pace of business;

Business protocol—how to physically and verbally

meet and interact; Decision making and negotiating;

Managing employees and

projects; Propensity for risk

taking; and Marketing,

sales, and distribution.

There are still many people around the world who think that business is just about core business principles and making money. They assume that issues like culture don't really matter. These issues do matter—in many ways. Even though people are focused on the bottom line, people do business with people they like, trust, and understand. Culture determines all of these key issues.

When you're dealing with people from another culture, you may find that their business practices, communication, and management styles are different from those to which you are accustomed. Understanding the culture of the people with whom you are dealing is important to successful business interactions and to accomplishing business objectives. For example, you'll need to understand

How people communicate;

How culture impacts how people view time and

deadlines; How they are likely to ask questions or

highlight problems; How people respond to

management and authority;

How people perceive verbal and physical communications; and How people make decisions.

To conduct business with people from other cultures, you must put aside preconceived notions and strive to learn about the culture of your counterpart. Often the greatest challenge is learning not to apply your own value system when judging people from other cultures. It is important to remember that there are no right or wrong ways to deal with other people—just different ways. Concepts like time and ethics are viewed differently from place to place, and the smart business professional will seek to understand the rationale underlying another culture's concepts.

For younger and smaller companies, there's no room for errors or delays—both of which may result from cultural misunderstandings and miscommunications. These miscues can and often do impact the bottom line.

Spotlight on Cultures and Entrepreneurship

With global media reaching the corners of the earth, entrepreneurship has become increasingly popular as more people seek a way to exponentially increase their chances for success. Nevertheless, entrepreneurs can face challenges in starting to do business in nations whose cultures require introductions or place more value on large, prestigious, brand-name firms.

Conversely, entrepreneurs are often well equipped to negotiate global contracts or ventures. They are more likely to be flexible and creative in their approach and have less rigid constraints than their counterparts from more established companies. Each country has different constraints, including the terms of payment and regulations, and you will need to keep an open mind about how to achieve your objectives.

In reality, understanding cultural differences is important whether you're selling to ethnic markets in your own home country or selling to new markets in different countries. Culture also impacts you if you're sourcing from different countries, because culture impacts communications.

Your understanding of culture will affect your ability to enter a local market, develop and maintain business relationships, negotiate successful deals, conduct sales, conduct marketing and advertising campaigns, and engage in manufacturing and distribution. Too often, people send the wrong signals or receive the wrong messages; as a result, people get tangled in the cultural web. In fact, there are numerous instances in which deals would have been successfully completed if finalizing them had been based on business issues alone, but cultural miscommunications interfered. Just as you would conduct a technical or market analysis, you should also conduct a cultural analysis.

It's critical to understand the history and politics of any country or region in which you work or with which you intend to deal. It is important to remember that each person considers his or her "sphere" or "world" the most important and that this attitude forms the basis of his or her individual perspective. We often forget that cultures are shaped by decades and centuries of experience and that ignoring cultural differences puts us at a disadvantage.

Spotlight on Impact of Culture on Business in Latin America

The business culture of Latin America differs throughout the region. A lot has to do with the size of the country, the extent to which it has developed a modern industrial sector, and its openness to outside influences and the global economy.

Some of the major industrial and commercial centers embody a business culture that's highly sophisticated, international in outlook, and on a par with that in

Europe or North America. They often have modern offices, businesspeople with strong business acumen, and international experience.

Outside the cities, business culture is likely to be much different as local conditions and local customs may begin to impact any interaction. Farther from the big cities, the infrastructure may become less reliable, forcing people to become highly innovative in navigating the challenges facing them and their businesses.

Generally speaking, several common themes permeate Latin American business culture. Businesses typically are hierarchical in their structure, with decisions made from the top down. Developing trust and gaining respect in the business environment is all about forging and maintaining good relationships. This often includes quite a bit of socializing.

Another important factor influencing the business culture is the concept of time. In Latin America, “El tiempo es como el espacio.” In other words, time is space. More often than not, situations take precedence over schedules. Many people unfamiliar with Latin American customs, especially those from highly time-conscious countries like the United States, Canada, and those in Northern Europe, can find the lack of punctuality and more fluid view of time frustrating. It’s more useful to see the unhurried approach as an opportunity to develop good relations. This is a generalization, though, and in the megacities of Latin America, such as Mexico City, São Paulo, and Buenos Aires, time definitely equals money.

In most Latin American countries, old-world manners are still the rule, and an air of formality is expected in most business interactions and interpersonal relationships, especially when people are not well acquainted with one another. People in business are expected to dress conservatively and professionally and be polite at all times. Latin Americans are generally very physical and outgoing in their expressions and body language. They frequently stand closer to one another when talking than in many other cultures. They often touch, usually an arm, and even kiss women's cheeks on a first meeting.

In business and in social interactions, Latin America is overwhelmingly Catholic, which has had a deep impact on culture, values, architecture, and art. For many years and in many countries in the region, the Catholic Church had absolute power over all civil institutions, education, and law.

However, today, the church and state are now officially separated in most countries, the practice of other religions is freely allowed, and Evangelical churches are growing rapidly. Throughout the region, particularly in Brazil, Indians and some black communities have integrated many of their own traditional rituals and practices with Christianity, primarily Catholicism, to produce hybrid forms of the religion.

Throughout Latin America, the family is still the most important social unit. Family celebrations are important, and there's a clear hierarchy within the family structure, with the head of the household generally being the oldest male—the father or grandfather. In family-owned businesses, the patriarch, or on occasion matriarch, tends to retain the key decision-making roles.

Despite the social and economic problems of the region, Latin Americans love life and value the small things that provide color, warmth, friendship, and a sense of community. Whether it's sitting in a café chatting, passing a few hours in the town square, or dining out at a neighborhood restaurant, Latin Americans take time to live.

From Mexico City to Buenos Aires—whether in business or as a part of the vibrant society—the history and culture of Latin America continues to have deep and meaningful impact on people throughout Latin America. CultureQuest Doing Business: Latin America (New York: Atma Global, 2011).

[Source: https://saylordotorg.github.io/text_international-business/s07-03-understanding-how-culture-impacts.html](https://saylordotorg.github.io/text_international-business/s07-03-understanding-how-culture-impacts.html)