



The business environmental factors may be classified into different types. There are broadly two types of environment that affects the organization, internal environment and external environment.

Internal environment includes internal factors of the business. It includes plans and policies, human resource, financial resource, corporate image, plant and machinery, labor-management relationship, promoter's vision etc. The components of internal environment are controllable.

The following are the factors of internal environment:

1. Plans & Policies:

The plans and policies of the firm should be properly framed taking into consideration the objectives and resources of the firm. Proper plans and policies help the firm to accomplish its objectives.

The higher authority must analyze the internal environment to foresee the changes and frame appropriate policies well in time.

For example: the personnel policy in respect of promotion should be based on merit rather than seniority.

2. Human Resource:

The survival and success of the firm largely depends on the quality of human resources. The social behavior of the employees greatly affects the working of the business. The characteristics of human resource like skill, quality, morale, commitment can contribute to the success of the organization.

If the employees of the organization are skillful and committed, it can take the firm to a great height. Neglecting the human resource by the management can hamper the success of the organization.

3. Financial Resources:

Capital is the lifeblood of every business. Finance relates to money. A firm needs adequate funds to meet its working capital and fixed capital requirements. There is a need to have proper management of working capital and fixed capital.

4. Corporate Image:

A firm should develop, maintain and enhance a good corporate image in the minds of employees, investors, customers etc. Poor corporate image is a weakness of the firm.

5. Plant and Machinery:

Plant and machinery is the internal part of the business firm. If the machines are obsolete or outdated, they should be replaced by a new one, or that adversely affects the business firm.

6. Labor and Management Relationship:

There should be smooth labor and management relationship. The management should understand the problems of their workers and gain confidence in them. The labors should be motivated by providing with monetary and non-monetary incentives.

7. Promoters vision:

The promoter should have far sight vision to forecast opportunities and threats in the business so that the opportunities are properly grabbed and threats are diffused off in time.

External Environment:

To run the business successfully, it is necessary to understand the environment with in which the business operates. Business environment j is a set of external factors that affects the business decisions.

The environment, which lies outside the organization, is known as external | environment. External factors are unpredictable and uncontrollable. They are beyond the control of the company.

Definition of external environment

In environment there are several factors which constantly bring opportunities and threats to the business firm. It includes social, economic, technological and political conditions”.

External environment is further classified as:

I. Micro Environment

II. Macro Environment

I. Micro Environment:

Micro environment is also known as operating environment. It consists of company's immediate environment that affects its performance. It includes customers, suppliers, intermediaries, competitors etc. The micro environment consists of the elements that directly affect the company.

1. The customers:

Consumer is the king of the market. They are the centers of the business. They are one of the most important factors in the external environment. Customer satisfaction has become more challenging due to globalization.

Nowadays, consumer expectations are high. Therefore the firm must keep in mind the customer's expectations, their requirements and accordingly make market decisions. The success of the business depends upon identifying the needs, wants, likes and dislikes of the customers and meeting with their satisfaction.

2. The competitors:

The company has to identify its competitor's activities. Information must be collected about competitors in respect of their prices, products, and promotion and distribution strategies. World is becoming a global market.

3. The Suppliers:

Suppliers supply raw material, machines, equipment's and other supplies. The company has to keep a watch over prices and quality of materials and machines supplied. It also has to maintain good relations with the suppliers.

4. Society:

Society affects company's decisions. The expectation of the society from the business is increasing. Therefore the business firm maintains public relations department to handle complaints, grievances and suggestions from general public. The members of the society include:

- i. Financial institutions
- ii. Shareholders
- iii. Government
- iv. Employees
- v. General public

5. Marketing intermediaries:

Market intermediaries include agents and brokers who help the business firm to find the customers. They help the firm to promote and distribute the goods to the final consumers.

They are the link between the firm and the final customers. Market intermediaries include wholesalers, retailers, advertising firm, media, transport agencies, banks, financial institutions etc. They assist the company in promoting and targeting its product to the right market.

II. Macro Environment:

The macro environment consists of the larger societal factors that affect the working of a firm. Macro environment is also known as general environment. The macro factors are generally uncontrollable.

The macro environment factors are briefly discussed as follows:

Definition of Macro Environment:

According to Philip Kotler, “Macro environment create forces that creates opportunities and pose threats to the business unit. It includes economic, demographic, natural, technological, political, political and cultural environments.”

Macro Factor:

Demographic Economic Technological Cultural Political Natural Legal

1. Demographic Environment:

Demographic Environment relates to the human population with reference to its size, education, sex ratio, age, occupation, income, status etc. Business deals with people so they have to study in detail the various components of demographic environment.

Demographic environment differs from country to country. Demographic factors like size of the population, age composition, density of population, rural-urban distribution, family size, income level, status etc. have significant implications on business.

2. Economic Environment:

Economic environment consists of economic factors that influence the functioning of a business unit. These factors include economic system, economic policies, trade cycle, economic resources, gross national product, corporate profits, inflation rate, employment, balance of payments, interest rates, consumer income etc. Economic environment is dynamic and complex in nature

3. Technological Environment:

Technology has brought about far reaching changes in the methods of production, quality of goods, productivity, and packaging. There is a constant technological development-taking place.

The business firm must constantly monitor the changes in the technological environment, which may have a considerable impact on the working of a business. It also indicates the pace of research and development and progress made in introducing modern technology in production.

4. Cultural Environment:

Culture involves knowledge, values, belief, morals, laws, customs, traditions etc. Culture passes from one generation to another through institutions like family, schools, and colleges. Business is an integral part of the social system.

Society is largely influenced by the culture and in turn culture influence the business firm. Culture shapes the attitude and behavior of the society. Any change in the cultural factor affects the business in large. Business should be organised and governed, taking into consideration various values and norms of the society.

5. Political Environment:

The political environment in a country influences the legislations and government rules and regulations under which a firm operates.

6. Natural Environment:

Resource availability like land, water and mineral is the fundamental factor in the development of business organisation. It includes natural resources, weather, climatic conditions, port facilities, topographical factors such as soil, sea, rivers, rainfall etc.

Every business unit must look for these factors before choosing the location for their business.

7. Legal Environment:

The state sets the formal rules, laws and regulations for the country's operational system. It creates a framework of rules and regulations within which a business has to operate. The business should have complete knowledge of laws and policies to run the business effectively.

A) The Relationship between an Organization and its Environment

1) Exchanging Information

An organization and its environment exchange information between themselves. Organizations need information about the external environment for planning, decision-making and control purposes. Hence, they analyze the environment's variables along with studying their behavior and changes.

2) Exchanging Resources

Apart from exchanging information, an organization and its environment also exchange resources. A firm needs inputs like finance, manpower, equipment, etc. from its environment. Typically, the resources required by an organization are categorized into **5 M's**:

Men or Manpower

Money

Method

Machine

Material

An organization uses these inputs to produce goods or services or both. Acquisition of these inputs usually requires an interaction between the firm and the markets. This interaction can be in the form of competition or collaboration. Nevertheless, the purpose is to ensure a constant supply of inputs.

On the other hand, the organization depends on its environment for the sale of its goods and services. This process also requires interaction between the firm and its environment. Further, the firm must perceive the needs of the environment and develop products or services to meet those needs. Satisfy the demands and expectations of the clientele groups. **These groups are:**

Consumers

Employees

Shareholders

Creditors

Suppliers

Local Community

The general public, etc.

3) Exchanging Influence and Power

The third important interaction between an organization and its environment is the exchange of influence and power. By now, we understand that the external environment holds considerable power over a firm due to the following reasons:

B) An Organization's Response to its Environment

In order for an organization to respond well to its environment, it must be able to monitor and make sense of its environment and have an internal capacity to develop effective responses. An organization's response to its environment can be of the following three types:

Administrative: These are either proactive or reactive responses to specific environments leading to forming or redefining the organization's purpose and key tasks.

Competitive: A change in the competitive environment can force an organization to respond with actions that can help it gain a competitive advantage over its rivals.

Collective: Many organizations cope with environmental dependence problems through strategic collective responses including methods like co-opting, bargaining, alliances, etc.