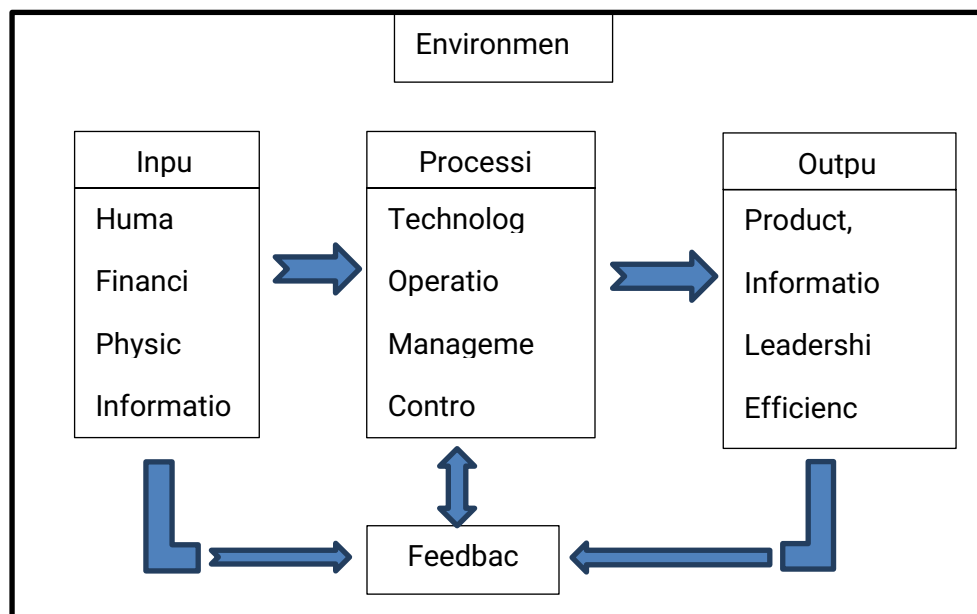


Unit 1 INTRODUCTION

Business Environment

Business consists of a number of elements such as production, marketing of goods and services, distribution etc. for the purpose of earning profits. A business is an economic activity concerned with the production and distribution of goods and services to the society. Business helps to earn profits by serving and satisfying the members of the society.

Business is a system. A system is an integrated whole. It operates within the environment. Business system can be shown as below:-



Business Environment

Business environment refers to all internal and external forces, elements and factors which influence the development, performance, and outcome of a business. In short, business environment is the surroundings where business firm grow up.

Business is environment specific. It operates in a dynamic environment. Environmental adaptation is the essence of business survival and growth.

The aggregate of factors and forces that influence business and business related activities is business environment. Business environment consists of sum total of all factors forces, events and institutions that surround business. They influence its performance, development and outcome.

Unit 1 INTRODUCTION

The internal environmental forces are located within the organization and can be controlled. Whereas, external environmental forces are located outside the business organization and are complex in nature.

However, both internal and external environmental forces together play an important role in influencing the outcome of business.

“Business environment is the aggregate of all conditions, events and influences that surround and affect it.”
Keith Davis

“Environment refers to institutions or forces that affect the organization’s performance.”

S.P Robbins and Marry Coulter

FEATURES of Business Environment

1. **COMPLEX** - It is a mixture of too many factors.
2. **DYNAMIC** - IT KEEPS CHANGING.
3. **SYMBBIOTIC** - Business and Environment both affect each other.
4. **FAR REACHING IMPACT** - It has long-term impact.

IMPORTANCE of Business Environment

Environmental Assessment helps in:

1. **Adaptation of business strategy**
2. **Strategy formulation**
3. **Setting operational boundary**
4. **LOBBYING FOR SUITABLE POLICY CHANGING**
5. **Insuring business stability**

TYPES of Business Environment

There are different types of business environment. They are as follows:-

1. **INTERNAL Environment**

Internal environment consists of conditions, factors and forces within the business organization that affect its performance and outcomes. They can be controlled by the organization. They can be qualified as its strengths and weaknesses.

The inherent capacity which organization can use to gain strategic advantage

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Unit 1 INTRODUCTION

over its competitor is known as strength and the inherent capacity which may create strategic disadvantage for business is weakness.

So, internal environment consists of those factors which give both strength and weakness to the organization.

Components of Internal Environment of Business are:-

- a. Goals, Policies, Strategies
- b. Organizational Culture
- c. Resources
- d. Structure etc.

2. EXTERNAL ENVIRONMENT

Generally, business environment is regarded as external environment. External environment affects the internal environment of business.

External environment consist of conditions and forces outside the business that influence its performance, development and outcomes. It cannot be controlled by the organization. It provides opportunities and threats to the prospect of business organizations.

Opportunity is a favorable condition in the external environment which may be availed for organizational growth.

Threats are those external factors that may hamper the organizational prospects. Business organizations take inputs from the external environment, transform them into products and send them back to external environment as output. So the performance of business starts from internal environment and ends in the external environment.

External Environment can be divided into two parts:-

A. Task Environment

It consists of outside forces and factors that are immediately relevant for achievement of the goals of business organization. They affect its ability to serve the customers. The components of task environment are:-

- Customer
- Suppliers
- Labor Union
- Media
- Financial Institution
- Pressure Groups
- Competitors
- Market Intermediaries etc.

B. General Environment

It consists of broad forces active in organizational surrounding that create opportunities for and threats to its business operations in the long run. Components of general environment are:- (PEST)

Unit 1 INTRODUCTION

- Political-Legal Environment: Political environment consists of the political system, political institutions, pressure groups, political philosophies etc. Legal environment consists of the laws of the land, rules and regulations of business, courts of law etc.
- Economic Environment: It consists of the economic parameters that influence business resource allocation, cost of production and profit. Components of economic environment are: Economic System, Economic Policies, Economic Condition, Globalization etc.
- Socio-Cultural Environment: It consists of social and cultural factors that affect business such as social demography, institutions, values, norms of behaviour and changes therein.
- Technological Environment It consists of factors such as Level of Technology, Technological Change, Research and Development, Technology Transfer, and availability of skilled labour force.

ENVIRONMENTAL ANALYSIS

Simply speaking, environmental analysis is the assessment of opportunities and threats in the external environment of business. To evaluate and judge the trend of environment outside the firm is known as environmental analysis.

Environment is dynamic. It keeps changing. Business is environment-specific. It takes birth in environment, survives in environment and declines therein as well. Its management must be aware about the external conditions and forces that influence its performance and outcomes.

Business must keep track of emerging signals and trends through environmental analysis. Every manager knows that the business environment is changing but is unaware of the manner in which it is going to change. Environment is getting complex day by day. So to survive, environmental analysis must be done periodically.

The environmental changes can be of 3 types:-

- a. Fad (short-run changes)
- b. Trend (medium-run changes)
- c. Mega trend (long-run changes)

Managers should pay attention to trend and mega trends, rather than fads which are short-lived. They should anticipate them, understand them and identify opportunities and threats in them.

Unit 1 INTRODUCTION

Process / Techniques of ENVIRONMENTAL ANALYSIS

1. SCANNING

Scanning involves acquiring information from external environment to detect some emerging trends that have potential impact on business.

2. MONITORING

The environmental information should be collected and analyzed on a regular basis. Such monitoring helps to forecast the future trends that may impact the business.

3. FORECASTING

Environmental forecasting focuses on what is likely to happen in future. It lays out a path for anticipated changes. Scenario building, Delphi technique, extrapolation can be useful for forecasting.

4. ASSESSMENT

This step identifies key opportunities and threats posed by the environment in future.

ENVIRONMENTAL SCANNING [SCANNING METHOD]

The careful monitoring of an organization's internal and external environments for detecting early signs of opportunities and threats that may influence its current and future plan is known as environmental scanning. Environmental scanning is the acquisition and use of information about events, trends and relationships in an organization's external environment, the knowledge of which would assist management in planning the organization's future course of actions.

Some of the scanning methods are as follows:-

1. DELPHI TECHNIQUE

To gather related and relevant information from different experts is known as Delphi technique. It is the systematic collection of views of experts.

2. INTUITIVE REASONING

The use of rational intuition is another way of environmental scanning. However, the scanner should be unconstrained by past experiences and personal biases.

3. SURVEY METHOD

In survey method; the information is gathered from a number of experts,

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Unit 1 INTRODUCTION

customers and others about their future anticipation.

4. SCENARIO BUILDING

Gathering the information by constructing a time-order sequence of events that have logical cause and effect relationship is scenario building. It is the study of cause and effect relationship and predicts the future trend by analyzing it.

5. BRAINSTORMING

The personal experience of scanner, deep thinking and personal qualification is used in this method to anticipate the

Unit 1 INTRODUCTION