

Business Environment

Introduction

All living creatures including human beings live within an environment. Apart from the natural environment, environment of humans include family, friends, peers and neighbours. It also includes man-made structures such as buildings, furniture, roads and other physical infrastructure. The individuals do not live in a vacuum. They continuously interact with their environment to live their lives.

Just like human beings, business also does not function in an isolated vacuum. Businesses function within the environment and have to negotiate their way through it. The extent to which the business thrives depends on the manner in which it interacts with its environment. A business, which continuously remains passive to the relevant changes in the environment, gradually fade away from the market. To be successful business one not only have to recognize different elements of the environment but also respect, adapt to or have to manage and influence them. The business must continuously monitor and adapt to the environment if it is to survive and prosper. Disturbances in the environment may spell extreme threats or open up new opportunities for the firm. A successful business has to identify, appraise, and respond to the various opportunities and threats in its environment.

As stated above, the success of every business depends on adapting itself to the environment within which it functions. For example, when there is a change in the government policies, the business has to make the necessary changes to adapt it to the new policies. Similarly, a change in the technology may make the existing product useless or of no importance, as we have seen that the introduction of computer has replaced the typewriters; the colour television has made the black and white television out of fashion. Again a change in the fashion or customers' taste may shift the demand in the market for a particular product, e.g., the demand for jeans reduced the sale of other traditional wear. All these aspects are external factors that are beyond the control of the business. So the business units must have to adapt themselves to these changes in order to survive and succeed in business. Hence, it is very necessary to have a clear understanding of the concept of business environment and the nature of its various components.

Definitions of Business Environment

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. While some of these factors or forces may have direct influence over the business firm, others may operate indirectly. 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,

and 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.”
- According to Barry M. Richman and Melvyn Copen “Environment consists of factors that are largely if not totally, external and beyond the control of individual industrial enterprise and their managements. These are essentially the ‘givers’ within which firms and their management must operate in a specific country and they vary, often greatly, from country to country”.

From the above definitions we can extract that business environment consists of factors that are internal and external which poses threats to a firm or these provide opportunities for exploitation.

Concept of Business Environment

A business firm is an open system. It gets resources from the environment and supplies its goods and services to the environment. There are different levels of environmental forces. Some are close and internal forces whereas others are external forces. External forces may be related to national level, regional level or international level. These environmental forces provide opportunities or threats to the business community. Every business organization tries to grasp the available opportunities and face the threats that emerge from the business environment. Business organizations cannot change the external environment but they just react. They change their internal business components (internal environment) to grasp the external opportunities and face the external environmental threats. It is, therefore, very important to analyze business environment to survive and to get success for a business in its industry. It is, therefore, a vital role of managers to analyze business environment so that they could pursue effective business strategy. A business firm gets human resources, capital, technology, information, energy, and raw materials from society. It follows government rules and regulations, social norms and cultural values, regional treaty and global alignment, economic rules and tax policies of the government. Thus, a business organization is a dynamic entity because it operates in a dynamic business environment.

Features of Business Environment

On the basis of the above discussion the features of business environment can be summarized as follows.

- Business environment is the sum totals 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.

