

CONSTITUENTS OF BUSINESS ENVIRONMENT:

Every business firm consists of a set of internal factors and it also confronts with a set of external factors. The present figure gives you a clearer and comprehensive picture about the different factors.

BUSINESS ENVIRONMENT

Internal Environment	External Environment	
	<i>Micro Environment</i>	<i>Macro Environment</i>
<ul style="list-style-type: none">• Human Resources & Internal Relationships• Company Image• Management Structure• Physical Assets• R & D & Technological Capabilities• Marketing Resources• Financial Factors	<ul style="list-style-type: none">• Consumers• Suppliers• Competitors• Middlemen• Publics	<ul style="list-style-type: none">• Economic Factors• Political & Govt. Factors• Demographic Factors• Socio-cultural Factors• International Factors• Natural Factors

Internal Environment

There are number of factors which influence the various strategies and decisions within the organization's boundaries. These factors are known as internal factors and are given below:

- (a) **Human Resources:** It involves the planning, acquisition, and development of human resources necessary for organizational success. It points out that people are valuable resources requiring careful attention and nurturing. Progressive and successful organizations treat all employees as valuable human resources. The organization's strengths and weaknesses is also determined by the skill, quality, morale, commitment and attitudes of the employees. Organizations face difficulties while carrying out modernizations or restructuring process by the resistance of employees. So, the issues related to morale and attitudes should seriously be considered by the management. Moreover, global competitive pressures have made the skillful management of human resources more important than ever. The support from the different levels of employees support the management in the different decisions and their implementations.

- (b) **Company Image:** One company issues shares and debentures to the public to raise money and its instruments are oversubscribed while the other company seeks the help of different intermediaries like underwriters to generate finance from the public. This difference underlies the distinction between the images of the two

companies. The image of the company also matters in certain other decisions as well like forming joint ventures, entering contracts with the other company or launching of new products etc. Therefore, building company image should also be a major consideration for the managers.

- (c) **Management Structure:** Gone are the days when business was carried out by the single entrepreneur or in the formation of partnerships. Now it has reshaped itself into the formation of company where it is run and controlled by the board of directors who influence almost every decision. Therefore, the composition of board of directors and nominees of different financial institutions could be very decisive in several critical decisions. The extent of professionalization is also a crucial factor while taking business decisions.
- (d) **Physical Assets:** To enjoy economies of scale, smooth supply of produced materials, and efficient production capacity are some of the important factors of business which depends upon the physical assets of an organization. These factors should always be kept in mind by the managers because these play a vital role in determining the competitive status of a firm or an organization.
- (e) **R & D and Technological Capabilities:** Technology is the application of organized knowledge to help solve problems in our society. The organizations which are using appropriate technologies enjoy a better competitive advantage than that of them

competitors. The organizations which do not possess strong Research and Development departments always lag behind in innovations which seems to be a prerequisite for success in today's business. Therefore, R & D and technological capabilities of an organization determine a firm's ability to innovate and compete.

- (f) **Marketing Resources:** The organizations which possess a strong base of marketing resources like talented marketing men, strong brand image, smart sales persons, identifiable products, wider and smooth distribution network and high quality of different services, make an effortless inroad in the target market. The companies which are having so strong basis can also enjoy the fruits of brand extension, form extension and new product introduction etc. in the market.
- (g) **Financial Factors:** The performance of the organization is also affected by the certain financial factors like capital structure, financial position etc. Certain strategies and decisions are determined on the basis of such factors. The ultimate survival of organizations in both the public and private sectors is dictated largely by how proficiently available funds are managed.

So, these were some of factors related to the internal environment of an organization. These factors are generally regarded as controllable factors because the organization commands control over these factors and can modify or alter as per the requirement of the organization.

External Environment:

Companies operate in the external environment that forces and shape opportunities as well as threats. These forces represent “no controllable”, which the company must monitor and respond to. SWOT (Strengths, weaknesses, opportunities and threats) analysis is very much essential for the business policy formulation which one could do only after examination of external environment. The external business environment consists of macro environment and micro environment.

Micro Environment: The company’s immediate environment where routine activities are affected by the certain actors. Suppliers, marketing intermediaries, competitors, customers and the publics operate within this environment. It is not necessary that the micro factors affect all the firms. Some of the factors may affect a particular firm and do not disturb to the other ones. So, it depends that to what type of industry a firm belongs. Now let’s discuss in brief some of the micro environmental factors.

(h) **Suppliers:** The supplier to a firm can alter its competitive position and marketing capabilities. These can be raw material suppliers, energy suppliers, suppliers of labor and capital. The relationship between suppliers and the firm epitomizes a power equation between them. This equation is based on the industry conditions and the extent to which each of them is dependent on the other. For the smooth functioning of business, reliable source of supply is a prerequisite. If any kind of uncertainties prevail regarding the supply of the raw materials, it often compels to a firm to maintain a high inventory which ultimately leads to the higher cost of

production. Therefore, dependence on a single supplier is a risky venture. Because of the sensitivity of the issue, firm should go to develop relations among the different suppliers otherwise it could lead to a chaotic situation. Simultaneously firms should reduce the stock so as to reduce the costs.

- (i) **Customers:** According to Peter F. Drucker “the motive of the business is to create customers”, because a business survives only due to its customers. Successful companies recognize and respond to the unmet needs of the consumers profitably and in continuous manner. Because unmet needs always exist, companies could make a fortune if they meet those needs. For example, it is the era when we could witness the increasing participation of women in the different jobs which has already given birth to the child care business, increased consumption of different durable items like microwave ovens, washing machines and food processors etc. A firm should also target the different segments on the basis of their tastes and preferences because to depend upon a single customer is often risky. So, monitoring the customer sensitivity is a pre-condition for the success of business.

- (j) **Competitors:** A firm’s products/services are also affected by the nature and intensity of competition in an industry. A firm should extend its competitive analysis to include substitutes also besides scanning direct competitors. The objective of such an analysis is to assess and predict each competitor’s response to changes in the firm’s strategy and industry conditions. This kind of analysis not

only ensures the firm's competitive position in the market but also able to pick up as its major rival in the industry. Besides the existing competitors, it is also necessary to have an eye on the potential competitors who may join the industry although forecasting of such competitors is a difficult task. Thus an analysis of competition is critical for not only evolving competitive strategy but also for strengthening a firm's capabilities.

- (k) **Marketing Intermediaries:** Marketing intermediaries provide a vital links between the organization and the consumers. These people include middlemen such as agents or brokers who help the firm to find out its customers. Physical distribution firms such as stockiest or warehouse providers or transporters ensure the smooth supply of the goods from their origin to the final destination. There are certain marketing research agencies which assist the organization in finding out the consumers so that they can target and promote their products to the right consumers. Financial middlemen are also there who carry out to finance the marketing activities such as transportation and advertising etc. A firm should ensure that the link between organization and intermediaries is appropriate and smooth because a wrong choice of the link may cost the organization heavily. Therefore, a continuous vigil of all the intermediaries is a must.
- (l) **Publics:** an organization has to confront with many types of publics during its life time. According to Cherrunilam "A public is any group that has an actual or potential interest in or impact on

an organization's ability to achieve its interests". The public includes local publics, media publics and action groups etc. The organizations are affected by the certain acts of these publics depending upon the circumstances. For example, if a business unit is establishment in a particular locality then it has to provide employment to the localities at least to the unskilled labor otherwise local group may harm to that very business or they will interrupt the functioning of the business. The media public has also to be taken into confidence because some time they tarnish the image of the organization unnecessarily. Simultaneously media public may disseminate vital information to the target audience. Action groups can also create hindrances in the name of exploitation of consumers or on the issue of environmental pollution. The business suffers due to their activities.

Therefore, their concern should also be kept in mind. Albeit, it is wrong to think that all publics are threats to the business yet their concerns should be considered up to a certain level.

Macro Environment: With the rapidly changing scenario, the firm must monitor the major forces like demographic, economic, technological, political/legal and social/cultural forces. The business must pay attention to their casual interactions since these factors set the stage for certain opportunities as well as threats. These macro factors are, generally, more uncontrollable than the micro factors. A brief discussion on the important macro environmental factors are given below:

(a) **Demographic Environment:** The first macro environmental factor that businessmen monitor is population because business is people and they create markets. Business people are keenly interested in the size and growth rate of population across the different regions, age distribution, educational levels, household patterns, mixture of different racial groups and regional characteristics. For determining the success of the business and to sustain in the market, incessant watching of these demographic factors is a prerequisite. To enter into a particular segment, a marketer needs to understand the age composition in that very segment so as to decide the optimal marketing mix and also take certain strategic decisions related to it. For example, if the youth form a large proportion of the population, it is but natural for firms to develop their products according to the requirement of this group. Besides the age, it is also necessary to break up population according to sex-wise and also the role of women. Today we can observe that more and more women have taken to work and professions and hence it can be seen that many time saving appliances are available in the market. Each gender group has different range of product and service needs and media and retail preferences, which helps marketers fine-tune their market offers.

There is yet another dimension of population changes which a businessman needs to address. For example, occupation and literacy profile of the targeted segment. The higher literacy level will imply a more demanding consumer as he is in the touch of the

various media which acquaint him with many information on the other hand low literacy make the marketers look for other method of communication. The occupation of the population also affects the choice of the products range and media habits. Any significant moves of the population from one area to another, rural to urban, is another important environmental factor which determines the marketing attention. For example, the movement from North-India to South-India will reduce the demand for warm clothing and home heating equipment on the one hand and will increase the demand for air conditioning on the other hand. So, the companies that carefully analyze their markets can find major opportunities.

(b) Economic Environment: Besides people, markets require purchasing power and that depends upon current income, savings, prices, debt and credit facilities etc. The economic environment affects the demand structure of any industry or product. The following factors should always be kept in mind by the business people to determine the success of the business.

(i) Per capita income

(ii) Gross national product

(iii) Fiscal and monetary policies

(iv) Ratio of interest charged by different financial institutions

(v) Industry life cycle and current phase

(vi) Trends of inflation or deflation

Each of the above factors can pose an opportunity as well as threat to a firm. For example, in a developing economy, the low demand for the product is due to the low income level of the people. In such a situation a firm or company cannot generate the purchasing power of the people so as to generate the demand of the products. But it can develop a low priced product to suit the low income market otherwise it will be slipped out from the market. Similarly, an industry gets a number of incentives and support from the government if it comes under the purview of priority sector whereas some industries face tough task if they are regarded as inessential ones.

In the industry life cycle, timing is everything when it comes to making good cycle-sensitive decisions. The managers need to make appropriate cutbacks prior to the onslaught of recession because at that time sales are bound to decline which leads to increasing inventories and idle resources and that is costly situation. On the other hand, business people cannot afford to get caught short during a period of rapid expansion. This is where accurate economic forecasts are a necessity and therefore, a manager must pay careful attention to the major economic changes.

- (c) **Technological Environment:** Technology is a term that ignites passionate debates in many circles these days. According to some people technology have been instrumental for environmental

destruction and cultural fragmentation whereas some others view that it has been the main cause to economic and social progress. But no doubt it has released wonders to world such as penicillin, open-heart surgery, family planning devices and some other blessings like automobile, cellular phones and internet services etc. It has also been responsible for hydrogen bomb and nerve gas. But the businesses that ignored technological developments, had to go from the world map. For example, in India, cars like Ambassador and Premier had to go from the scene because of obsolete technology. Likewise, containerized movement of goods, deep freezers, trawlers fitted with freezers etc. have affected the operations of all firms including those involved in seafood industry. Now it has been ensured that perishable goods can be transported in a safer manner. Explosion in information technology have made the position of some firms vulnerable. The life cycle of the products has reduced and expectations of the consumers are becoming higher and higher due to all these technological changes. But to cope up with this kind of scenario, a continuous vigil of the happenings and adequate investment on R & D department is to be earmarked by the marketer. Marketers must also be aware of certain government regulations while developing and launching new products with latest technological innovations.

- (d) **Political/Legal Environment:** Business decisions are strongly affected by developments in the political and legal environment. This environment is consisting of laws, regulations and policies that

influence and limit various organizations. Sometimes these laws create opportunities for the business but these also pose certain odds or threats at the other time. For example, if the government specifies that certain products need mandatory packaging then it will boost the cardboard and packaging companies but it will add to the cost of the product. Regulations in advertising, like a ban on advertisement of certain products like liquor, cigarettes and pan masalas and hoarding of food products, gas and kerosene are the reality of today's business. Business legislations ensure specific purposes to protect business itself and the society as well like unfair competitions, to protect consumers from unfair business practices and to protect the interest of the society from unbridled business behavior. In India business is regulated through certain laws like Monopolies and Restrictive Trade Practices Act, 1969 (MRTP Act), Foreign Exchange and Regulation Act, 1973 (FERA), Partnership Act 1932, Consumer Protection Act, 1986 (CPA), and Companies Act, 1956 etc. A businessman needs to understand the various policies and political ideologies because these things have a profound impact on the functioning and success of the business.

- (e) **Social-cultural Environment:** Society shapes the beliefs, values, norms, attitudes, education and ethics of the people in which they grow up and these factors exercise a great influence on the businesses which by far are beyond the company's control. All these factors are classified as social-cultural factors of the business. The buying and consumption pattern of the people are

very much determined by these factors and cost of ignoring the customs, tastes and preferences etc. of the people could be very high for a business. Consumers depend on cultural prescriptions to guide their behavior, and they assume that others will behave in ways that are consistent with their culture. Culture unites a group of people in a unique way and support the group's unity. As consumers, people expect that businessman will deliver according to the values, customs and rituals of the existing culture. As the business is going global day by day and the world is at the verge of 'global village' the need for developing understanding cultural differences has become an essential element to survive in such a scenario.

Therefore, the marketers who wish to be the part of the ongoing process need to understand the process of acculturation so that they can develop ways to handle the consumers of different cultures. People's attitudes toward business is also determined by the culture. What is right and what is wrong are basic to all businesses and for doing or not doing a particular work is judged on the basis of prevalent culture and also determines certain ethical code of conduct.

Despite the pervasive nature of culture, not all the people within a society think, feel, and act the same way. Every society has subcultures- group of people that share values but exhibit them in different ways. Within a society such as the India, there are the different tastes and preferences of the different start a like a Punjabi or a north Indian has altogether different preferences then that of a South Indian in the name

of certain products especially in case of food and clothing and the shrewd marketers have always capitalized on this kind of opportunities. Hence, a thorough understanding of social-cultural environment is imperative to be successful.