

BUSINESS ENVIRONMENT

UNIT-1

PART-IV

2] EXTERNAL ENVIRONMENT: -

To run the business successfully, it is necessary to understand the environment with in which the business operates. Business environment 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.

External environment refers to external aspects of surrounding of business enterprise.

External environment is further classified as: -

I. Micro Environment

II. Macro Environment

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

According to Philip Kotler, “Micro environment consist of the factors in the company’s immediate environment which affects the performance of the business unit. These include suppliers, market intermediaries, competitors, customers and the public”.

Factors of micro environment: -

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

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. Business firm has to face tremendous competition not only from Indian business firm but also from foreign firms. To achieve growth and success they have to monitor various activities of their competitor’s liberalization, privatization and globalization have promoted competition that has created threats to domestic units. The business must understand the strategies framed by the competitors to respond in an effective manner.

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.

2] 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.

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.”

FACTORS OF MACRO ENVIRONMENT:-

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.

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.

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

Political environment means influence exerted by:

- a) **Legislature:** This includes parliament, legislative assemblies. They are the law-making bodies that frame rules and regulations.
- b) **Executives:** They include government beurocrasy who implements the decision.
- c) **The Judiciary:** It includes Supreme Court, High Court who sees whether the decisions taken and implemented by the executive are within the constitutional framework. They are also known as dispute settlement bodies.

6. Natural Environment: Resource availability like land, water and mineral is the fundamental factor in the development of business organization. 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. Some of the laws are:

- a. Consumer protection Act-1986
- b. Factories Act-1948
- c. Workers' compensation Act-1923
- d. FEMA Act-1999
- e. The Companies Act-1956
- f. The Environment protection Act-1986

8. Global environment: it includes rules and regulations WTO, IMF, WB, and other international bodies which duly affect the business organizing operating their business in any particular country.