

## Concepts and Elements of Business Environment

Business organisations are systems that don't exist in isolation. It includes different factors and forces that affect its working. These forces and elements together form a collective space called a business environment. Let's understand the concept and elements of the Business Environment in this article.

### Concept of Business Environment

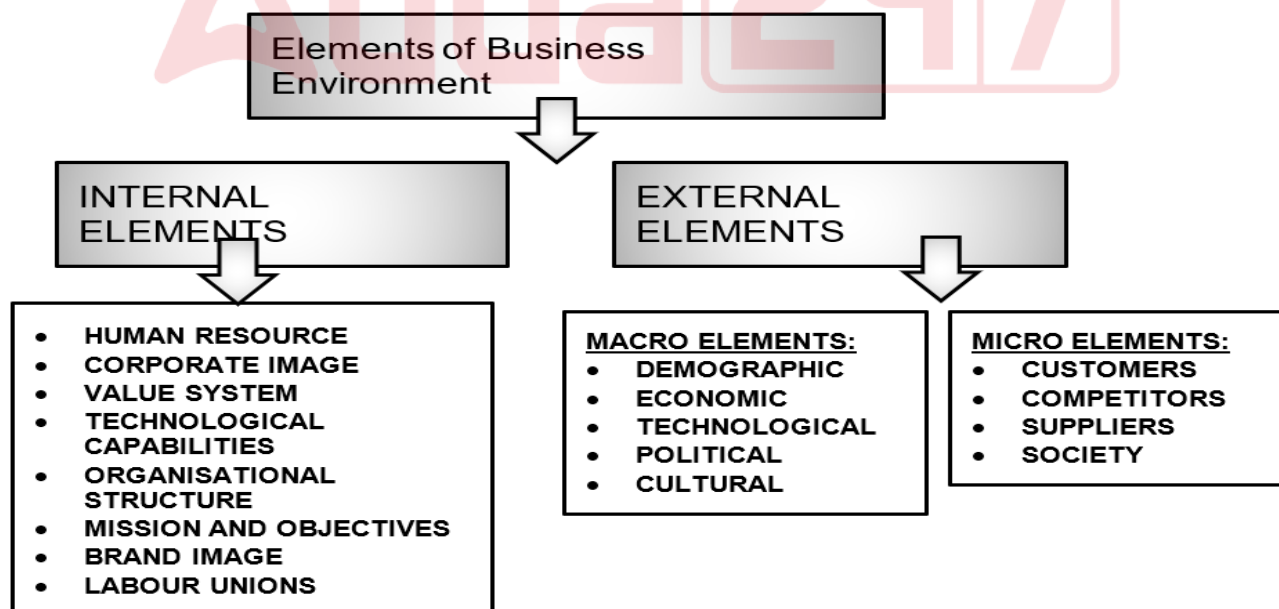
To commence with, we need to understand the basic concept of the business environment. The environment can be termed as the surroundings or the conditions in which any being lives. Similarly, ***the business environment can be defined as the sum total of all internal and external factors that affect a business's operations. These factors are interconnected and the changes in one factor can affect others.*** This creates a complex and dynamic environment that businesses need to adapt to in order to sustain in the competitive markets.

### Definitions:

- The business environment is an aggregate of all conditions, events and influences that surround and affect the business. – *Keith Davis*
- The total of all things external to firms and industries which affect their organization and operation. – *Bayard O. Wheeler*
- The business environment encompasses the climate or set of conditions – economic, social, political or institutional in which the business operations are conducted. – *Arthur M. Weimer*

### Elements of Business Environment:

All the factors that affect business in one or another way are called elements of the business environment. They are categorised as internal and external elements depending on how they are associated with the business. These are explained in detail below:



## **INTERNAL ELEMENTS:**

These forces are associated with the internal business environment and have a direct association with organisational activities. These factors are controllable. these include the following sub-elements:

1. **HUMAN RESOURCE:** The quality of human resources i.e. the personnel including employees, labour, managers and executive managers directly influences the working of the business. A business should have an efficient human resource management system so that it does not affect the growth of the business.
2. **CORPORATE IMAGE:** Presenting a positive image and clearly communicating the brand values has a direct influence on the turnover and profit-earning capacity of the business. This creates a meaningful image in front of the customers and encourages brand loyalty. As a result, customer retention will take place and they would prefer to buy your firm's product than that of the competitors.
3. **VALUE SYSTEMS:** An organization with a good and optimistic value system tends to survive better as compared to one which has an unethical workplace. Complying with business and corporate ethics is a must to safeguard an organization from internal risks like theft, forgery, scams and so on.
4. **TECHNICAL CAPABILITIES:** A modernized and developed business has greater levels of self-sufficiency with respect to technical advancements and capabilities. Businesses using obsolete technological practices tend to fail after a span of time and are vulnerable to various risks.
5. **LABOUR UNIONS:** Labor laws play a vital role in today's time and age as the HRM policies have strengthened and the managers need to motivate the workforce so that they stay aligned with the goals of the organization thereby not causing any havoc and forcing strikes on the companies.
6. **ORGANISATIONAL STRUCTURE:** The complexities in the structure and line of products cause greater risks. The executives must get the risks insured and develop strategies and policies accordingly.
7. **MISSION AND OBJECTIVES:** A company must adhere to its principles and objectives and the mission should be clearly stated and not vague. The type of business decisions taken would directly affect the performance of the business in the long run.

## **EXTERNAL FACTORS**

The external factors include micro and macro-level factors. Macro factors affect the business to a greater extent and are usually uncontrollable. These factors are briefly described below.

### **MICRO LEVEL:**

**These factors are external but are directly associated with the business. These include the following:**

- **Customers** are the greatest asset of a business. A company needs to satisfy the needs and wants of the customers and take care of their changing tastes and preferences.
- **Competitors** also play a great role in the marketplace. A firm should maintain healthy competition with its competitive firms to enjoy a safe market area.
- **The suppliers** can also affect the area of the business as they can cause delay in providing the goods at times. The company should make the payments regularly to motivate them and ensure fair trade relations and practices.
- **Society** is an indispensable component as it is one of the users of the business. The companies should fulfil their corporate social responsibilities and take special care of the fact that natural resources remain unexploited.

## MACRO LEVEL

**These include forces that are external to the organisation. Organisational acts don't have any bearing on these factors rather such elements affect all the business differently. These are:**

- **Demographic factors** include the characteristics of a population that can be used to influence the accomplishment of the goals of a business or commercial venture. The most important demographic factors for businesses constitute age, sex, income, education level, and occupation.
- **Political factors** affect the business as local, national, and international laws, policies and regulations are integral to business operations and generate crucial outcomes. Different nations have different norms and regulations. Some government regulations support industries, thus equipping an opportunity for many firms. For example, certain businesses are exempted from paying taxes.
- **Economic factors** such as unemployment, fluctuation in exchange rates, inflation, wages, and variation in demand and supply chains typically impact an enterprise's profit-earning capacity and increase its efficiency. The study of these factors can help in predicting purchasing power of customers and planning suitable marketing efforts to enhance a firm's performance.
- **Technological factors** comprise production techniques, information and communication resources, logistics, marketing and making the use of E-commerce tools. This directly impacts the operations, sales, and interactions and gathers accurate databases to facilitate customers, suppliers, banking institutions and competitors.
- **Social and cultural factors** consist of value and belief systems, practices, customs, traditions and social involvement of all the individuals which vividly influence the trends, fashion, marketing activities and the type of products and services of the given geographical area.

To sum up, understanding the business environment is crucial for the ones who are pursuing management and business operations. before taking any decision one should understand the explicit and implicit effects of different environmental factors on the business. Moreover, this knowledge is also relevant and apt for business owners and managers who can use it to adapt to changing trends and make informed decisions. Therefore, it can be contemplated that the business environment covers various aspects and factors around which the business and market revolve.

PYQs:

1. What is the business environment?

Ans: The business environment includes all those factors and forces that affect the business in different ways.

2. Give some examples of economic elements affecting business.

Ans: Economic elements include different policies and factors that affect business. Example: Monetary Policy, Budget and tax slabs etc.

3. what do you mean by liberalisation?

Ans: Liberalisation means to the freeing of trade, investment and capital flows among countries. It refers to the gradual decrease in governmental barriers and simplification of tax structure, and removal of quotas.