

- A business is created to provide products or services to customers. If it can conduct its operations effectively, its owners earn a reasonable return on their investment in the firm. In addition, it creates jobs for employees. Thus, businesses can be beneficial to society in various ways.
- Each business organization operates in its unique environment.

## Meaning of Business Environment

Business environment represents all external forces, factors or conditions that exert some degree of impact on the business decisions, strategies and actions taken by the firm.

The business must continuously monitor and adapt itself to the environment if it is to survive and prosper.



## According to Gluek 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 factors are socio-economic, technological, suppliers, competitors, and government”

## Characteristics of Business Environment

**Complex:** The environment consists of a number of factors, events, conditions and influences arising from different sources.

**Dynamic :** The environment is constantly changing in nature.

**Multi-Faceted:** What shape and character an environment assumes depends on the perception of the observer.

**Far Reaching Impact:** The environment has a far-reaching impact on organizations.

## Importance of Business Environment

**Determining Opportunities and Threats:** The interaction between the business and its environment would bring out opportunities for and threats to the business

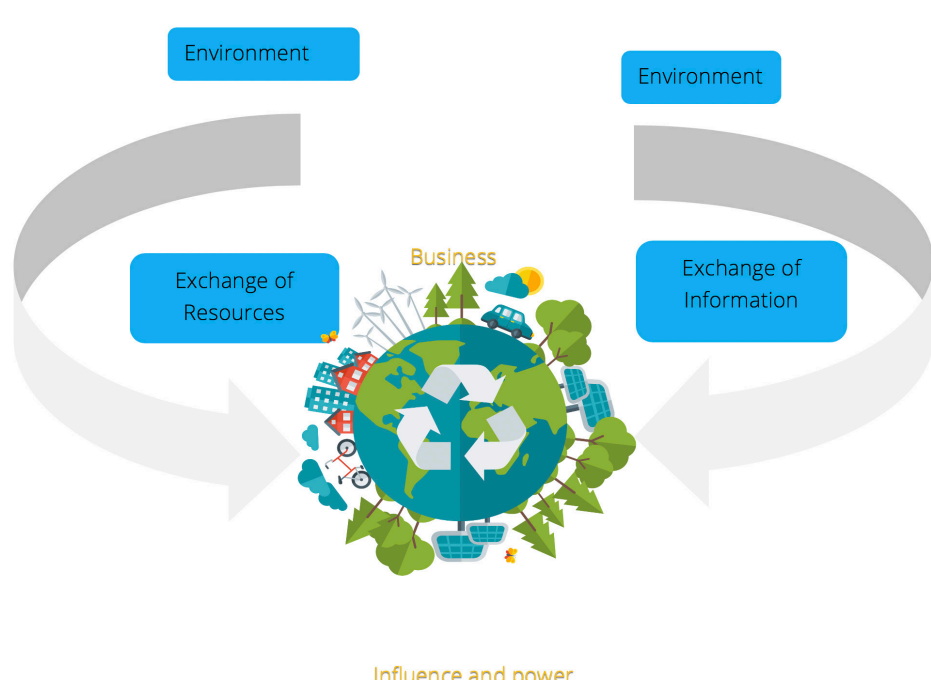
**Giving Direction for Growth:** The interaction with the environment enables the business to identify the areas for growth and expansion of their activities.

**Continuous Learning :** The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in the realm of business.

**Image Building:** Environmental understanding helps the business organizations in improving their image by showing their sensitivity to the environment in which they operate.

**Meeting Competition:** It helps the firms to analyse the competitors’ strategies and formulate their own strategies accordingly.

## Relationship between Organization and its Environment



### • Exchange of information:

- o The organization scans the external environmental variables, their behaviour and changes, generates important information and uses it for its planning, decision-making and control purposes. Much of the organizational structure and functioning is attuned to the external environmental information. Information generation is one way to get over the problems of uncertainty and complexity of the external environment.

### • Exchange of resources

- o The organization receives inputs—finance, materials, manpower, equipment etc. from the external environment through contractual and other arrangements. The resources are often categorised as 5 M's Men, Money, Method, Machine, Material.

### • Exchange of influence and power

- o The external environment holds considerable power over the organization both by virtue of its being more inclusive as also by virtue of its command over resources information and other inputs. It offers a range of opportunities, incentives and rewards on the one hand and a set of constraints, threats and restrictions on the other.