

1

chapter

Business Environment

Quick Revision Notes

"If you know the enemy and you know yourself, your victory will not stand in doubt; if you know Heaven and you know Earth, you may make your victory complete." - **Sun Tzu, The Art of War**

"It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change (in environment)." - **Charles Darwin**

Following is a sample excerpt from 'STRATEGIC MANAGEMENT' - By CA K S Jolly
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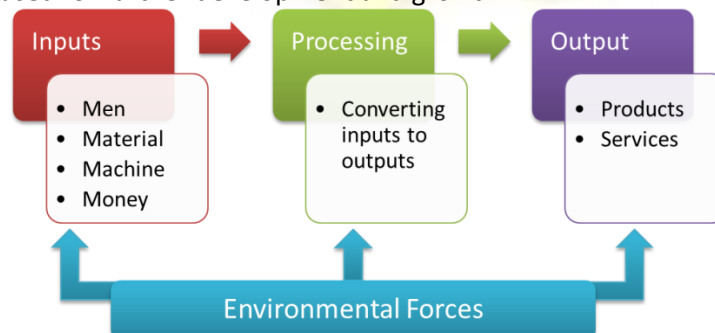
3 Business Environment

Environmental Influences on Business

Role of Business Environment

Every organization operates within an environment.

- ⇒ **Inputs:** Organizations depend on the environment for the inputs in the form of **human, physical, financial and other related resources**.
- ⇒ **Processing:** The business converts these resources through various **processes into outputs** of products and/or services.
- ⇒ **Outputs:** **Products/services** are partly exchanged with the environment, say customers. The exchange process brings in some surplus (or profits, reputation, good public image and so on) to the business, which could be stored and used for further development and growth.



- ⇒ To be successful over time, an organization needs to
 - **recognise** different elements/factors of the environment
 - continuously **monitor** these elements
 - **manage** these elements **or adapt** to changes in these elements



Problems in understanding the environmental influences

In trying to understand the environment, managers face different problems as follows:

- 1 **Multiplicity** – identifying the critical factors out of **many different factors**.
- 2 **Uncertainty** – understanding **future environmental influences** on an organisation.
- 3 **Subjectivity** – **focusing on those factors of the environment which were important in the past but not relevant at present**.

Framework to understand the environmental influences

Step 1 - Take an **initial view of the nature** of the organisations environment to judge its certainty and complexity.

Step 2 - **Identify political, economic, social and technological influences** on organisation's development or performance.

Step 3 - **Identify the key forces at work in the immediate or competitive environment** and why they are significant.

Why Environmental Analysis/Scanning?

To identify possible external opportunities and threats and internal strengths and weaknesses.

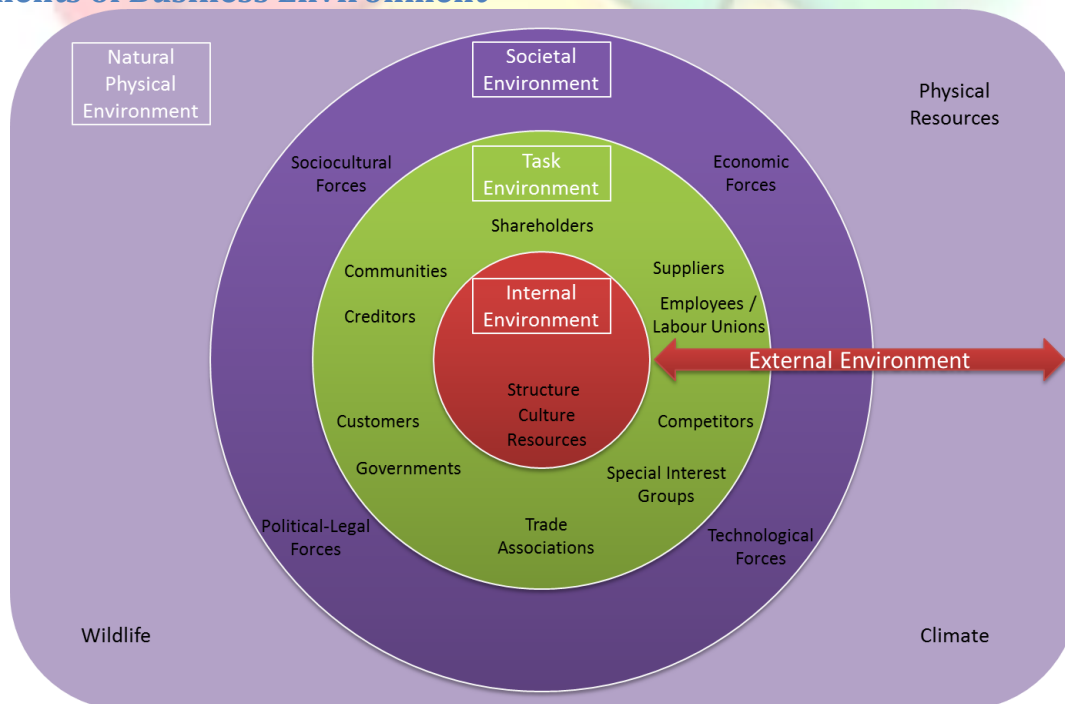
Purpose of Environmental Scanning

1. **Understand Environmental Changes**
2. **Identify Strategic Factors**
3. **Facilitate Strategic Thinking**

Characteristics of Business Environment

- 1 **Complex**
- 2 **Dynamic**
- 3 **Multi-faceted**
- 4 **Far reaching impact**

Components of Business Environment



External Environment

The external environment consists of Opportunities and Threats.

- An **opportunity** is a **favorable condition** in the organization's environment which **enables it to consolidate and strengthen its position**.



- A **threat** is **an unfavorable condition** in the organization's environment which **creates a risk for, or causes damage** to, the organization.

The external environment consists of:

1. Natural Physical Environment

physical resources, wildlife, and climate

2. Societal Environment

mankind's social system

- ⇒ **Economic forces** that regulate the exchange of materials, money, energy, and information.
- ⇒ **Technological forces** that generate problem-solving inventions.
- ⇒ **Political–legal forces** that allocate power and provide constraining and protecting laws and regulations.
- ⇒ **Sociocultural forces** that regulate the values, mores, and customs of society.

3. Task Environment

the industry within which the firm operates

Governments, local communities, suppliers, competitors, customers, creditors, employees/labour unions, special-interest groups, and trade associations.

Internal Environment

The internal environment of a corporation consists of Strengths and Weaknesses.

- A **strength** is **an inherent capacity** which an organization can use **to gain strategic advantage** over its competitors.
- A **weakness** is **an inherent limitation** or constraint **which creates a strategic disadvantage**.

The internal environment consists of:

- 1. Organisation structure,**
- 2. Corporate culture and**
- 3. Resources.**

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