

UNIT 1 INTRODUCTION



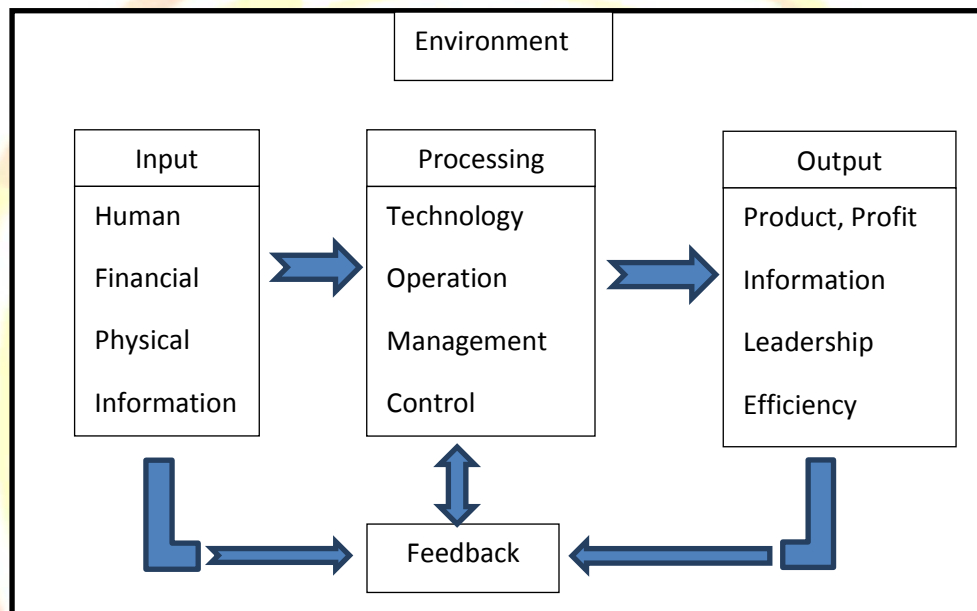
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✚ BUSINESS AND ITS ENVIRONMENT

Business consists of a number of elements such as production, marketing of goods and services, distribution etc. for the purpose of earning profits. A business is an economic activity concerned with the production and distribution of goods and services to the society. Business helps to earn profits by serving and satisfying the members of the society.

Business denotes organized activities related to industry, commerce and profession. Business is carried on by owners and it has some objective to be achieved. The objectives of business can be profit, growth, survival, leadership, efficiency and social responsibility.

Business is a system. A system is an integrated whole. It operates within the environment. Business system can be shown as below:-



✚ BUSINESS ENVIRONMENT

Business environment refers to all internal and external forces, elements and factors which influence the development, performance, and outcome of a business. In short, business environment is the surroundings where business firm grow up.

Business is environment specific. It operates in a dynamic environment. Environmental adaptation is the essence of business survival and growth.

The aggregate name of factors and forces that influence business and business related activities is business environment. Business environment consists of sum total of all

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factors forces, events and institutions that surround business. They influence its performance, development and outcome.

The internal environmental forces are located within the business and can be controlled and define the scope of business, whereas external environmental forces are located outside the business and are complex in nature.

However, both internal and external environmental forces play an important role in influencing the outcome of business.

“Business environment is the aggregate of all conditions, events and influences that surround and affect it.”
Keith Davis

“Environment mainly refers to all external forces that impact business.”
K Aswathappa

“Environment refers to institutions or forces that affect the organization’s performance.”
S.P Robbins and Marry Coulter

✚ FEATURES OF BUSINESS ENVIRONMENT

1. COMPLEX
2. DYNAMIC
3. SYMBIOTIC (Double side effect)
4. MULTI-FACETED
5. FAR REACHING IMPACT (long-term impact)

✚ IMPORTANCE OF BUSINESS ENVIRONMENT

1. ADAPTATION
2. STRATEGY FORMATION
3. BOUNDARY SPANNING
4. LOBBYING
5. STABILITY

✚ TYPES OF BUSINESS ENVIRONMENT

There are different types of business environment. They are as follows:-

1. INTERNAL ENVIRONMENT

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The one and only fully controllable environment by the business organization is internal environments. Internal environment consists of condition, factors and forces within the business organization that affect its performance and outcomes.

Internal environment defines the scope of business organization. It provides strength and weakness to the organization.

The inherent capacity which organization can use to gain strategic advantage over its competitor is known as strength and the inherent capacity which may create strategic disadvantage for business is weakness.

So, internal environment consist those factor which gives both strength and weakness to the organization.

Components of Internal Environment of Business are:-

- a. Goals, Policies, Strategies
- b. Organizational Culture
- c. Resources
- d. Structure

2. EXTERNAL ENVIRONMENT

Generally, business environment is regarded as external environment. External environment is one that affects to the internal environment of business.

External environment consist of conditions and forces outside the business that influence its performance, development and outcomes. It cannot be controlled by business. It provides opportunities and threats that are lying in the outside the business organization.

Opportunity is a favorable condition in the environment which enables to consolidate and strengthen organization's position.

Business organizations take inputs from the external environment transform them into products and send them back to external environment as output. So the performance of business starts from internal environment and ends to the external environment.

External Environment can be divided into two parts:-

a. Task Environment

It consists of outside forces and factors that are immediately relevant for achievement of the goals of business organization. They affect ability to serve the customer. The components of task environment are:-

- Customer

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- Suppliers
- Labor Union, Media, Financial Institution, Pressure Groups
- Competitors, Market Intermediaries

b. General Environment

It consists of broad forces in business organizations surroundings. It influences business activities by providing opportunities and threats. Components of general environment are:- (PEST)

- Political- Legal Environment (consists of factors related to the management of public affairs, its forces are: political system, political institutions, pressure groups, political philosophies. Laws are rules of conduct enforced by state that treats all persons equally. Legal factors which influences business are: Business Law, Courts of Law, Law Administrators)
- Economic Environment (consist of economic parameters that influence business resources allocation, cost and profit. Components of economic environment are: Economic System, Economic Policies, Economic Condition, Globalization etc.)
- Socio- Cultural Environment (consist of factors related to human relationships that affect business. Social factors that influences business are: Demographics, Social Institution, Social Change)
- Technology (consist of skills, methods, systems and equipment. Factors that influences business are: Level of Technology, Technological Change, Research and Development, Technology Transfer)

ENVIRONMENTAL ANALYSIS

Simply, environmental analysis is the assessment of opportunities and threats in the external environment of business. To evaluate and judge the trend of environment outside the firm is known as environmental analysis.

Environment is dynamic. It keeps changing. Business is environment-specific it takes birth in environment, survives in environment and declines as well. Business must be aware about conditions and forces that influence its performance and outcomes.

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Business must keep track of emerging signals and trends through environmental analysis. Every business is aware that the present trend is changing but unaware that where it is tending to change. Environment is getting complex day by day so to survive, environmental analysis must be done.

The environment signal can be of 3 types:-

- a. Fad (temporary)
- b. Trend (some momentum and durability, predictable)
- c. Megatrend (longer duration)

Managers should pay attention to trend and megatrends. They should anticipate them, understand them and identify opportunities and threats in them.

✚ PROCESS/ TECHNIQUES OF ENVIRONMENTAL ANALYSIS

1. SCANNING

Scanning involves acquiring information from external environment to try to detect trends in some way. It detects emerging trends that have potential impact on business.

2. MONITORING

The scanned information should be monitored and analyzed that in which way they are beneficial to the organizations. The monitoring helps to forecast the future trends. It involves tracking environmental trends and events.

3. FORECASTING

This is the step to forecast the future situations. It focuses on what is likely to happen. It lays out a path for anticipated changes. Scenario building, Delphi technique, extrapolation can be useful for forecasting.

4. ASSESSMENT

This step identifies key opportunities and threats. In this step, organization evaluates how it has been success to forecast the environments and how the organization stands in relation to other competitors for same resources and customers. It is review phase.

✚ ENVIRONMENTAL SCANNING [SCANNING METHOD]

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The careful monitoring of an organization's internal and external environments for detecting early signs of opportunities and threats that may influence its current and future plan is known as environmental scanning. Environmental scanning is the acquisition and use of information about events, trends and relationships in an organization's external environment, the knowledge of which would assist management in planning the organization's future course of actions.

Some of the scanning methods are as follows:-

1. DELPHI TECHNIQUE

To gather related and relevant information from different expertise is known as Delphi technique. It is the systematic collection of views of experts.

2. INTUITIVE REASONING

The rational intuition by scanner for free thinking. The scanner should be unconstrained by past experiences and personal biases.

3. EXTRAPOLATION

The use of past information to explore future is extrapolation. The extrapolation technique can be of forecasting, trend analysis, regression analysis etc.

4. SURVEY METHOD

In survey method; the information are gathered from opinions of experts, customers and others about their future anticipation.

5. SCENARIO BUILDING

Gathering the information by constructing a time-order sequence of events that have logical cause and effect relationship is scenario building. It is the study of cause and effect relationship and predicts the future trend by analyzing it.

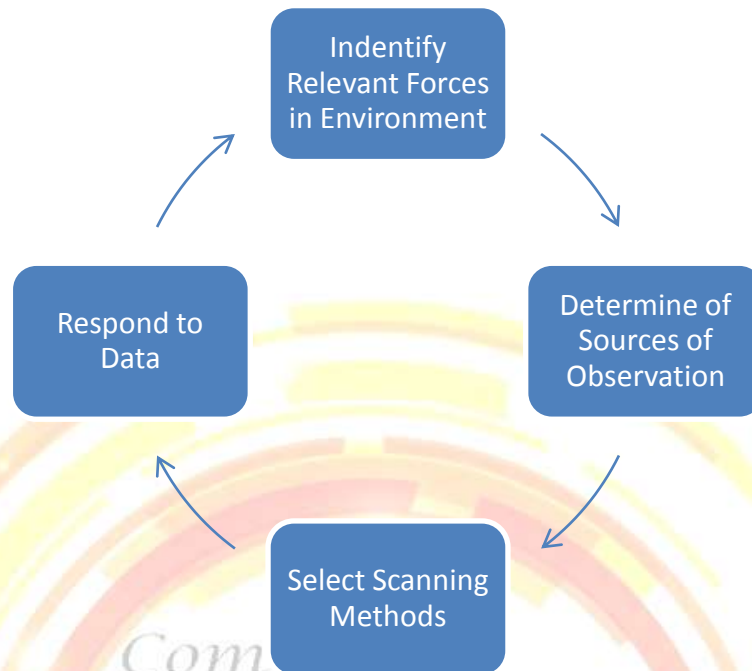
6. BRAINSTORMING

The personal experience of scanner, deep thinking and personal qualification is used in this method to anticipate the future.

✚ PROCESS OF ENVIRONMENTAL SCANNING

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1. IDENTIFY RELEVANT FORCES

First of all, to scan, the relevant data are required. To acquire relevant data, we should identify the relevant forces. The most relevant forces must be chosen. They can be external forces. (PEST Forces)

2. DETERMINATION OF SOURCES OF OBSERVATIONS

To acquire information and other relevant data, different sources of observation could be used. These are determined by top level management. Personal experiences, employees and competitors, meetings, conference, newspapers etc. are sources of observation.

3. SELECT SCANNING METHODS

The appropriate scanning methods should be selected. The various scanning methods are described early. This is the process that starts after sufficient information is gathered.

4. RESPOND TO DATA

The collected data is studied, analyzed, assessed, interpreted, correlated, and understood. Crucial developments are pin-pointed. They can be:-

- a. Events (specific occurrences)
- b. Trend (direction or sequence of events)
- c. Issues (current concern arise from event and trends)

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- d. Expectations (stakeholders demand arising from issues)

After completion of scanning process, corporate strategies are formulated.

ENVIRONMENTAL ANALYSIS AND STRATEGIC MANAGEMENT

Strategies provide long term direction and scope to business organizations. Strategic management is concerned with decisions and actions of top management to implement strategies.

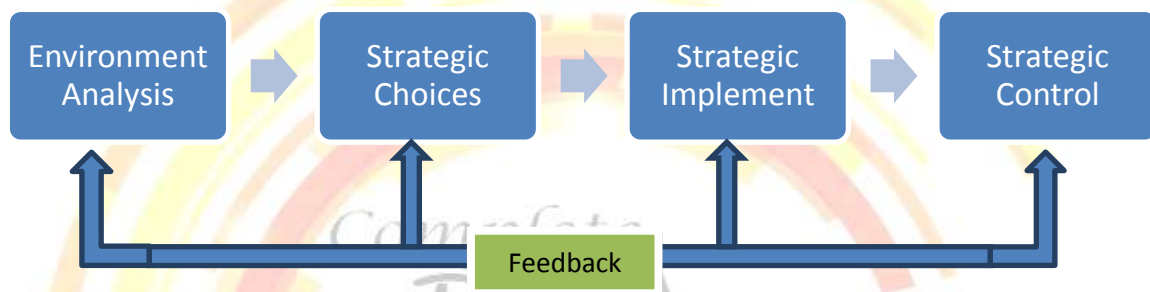


Figure:- Strategic Management

Environment Analysis is the starting point for strategic management. It defines strategic positions.

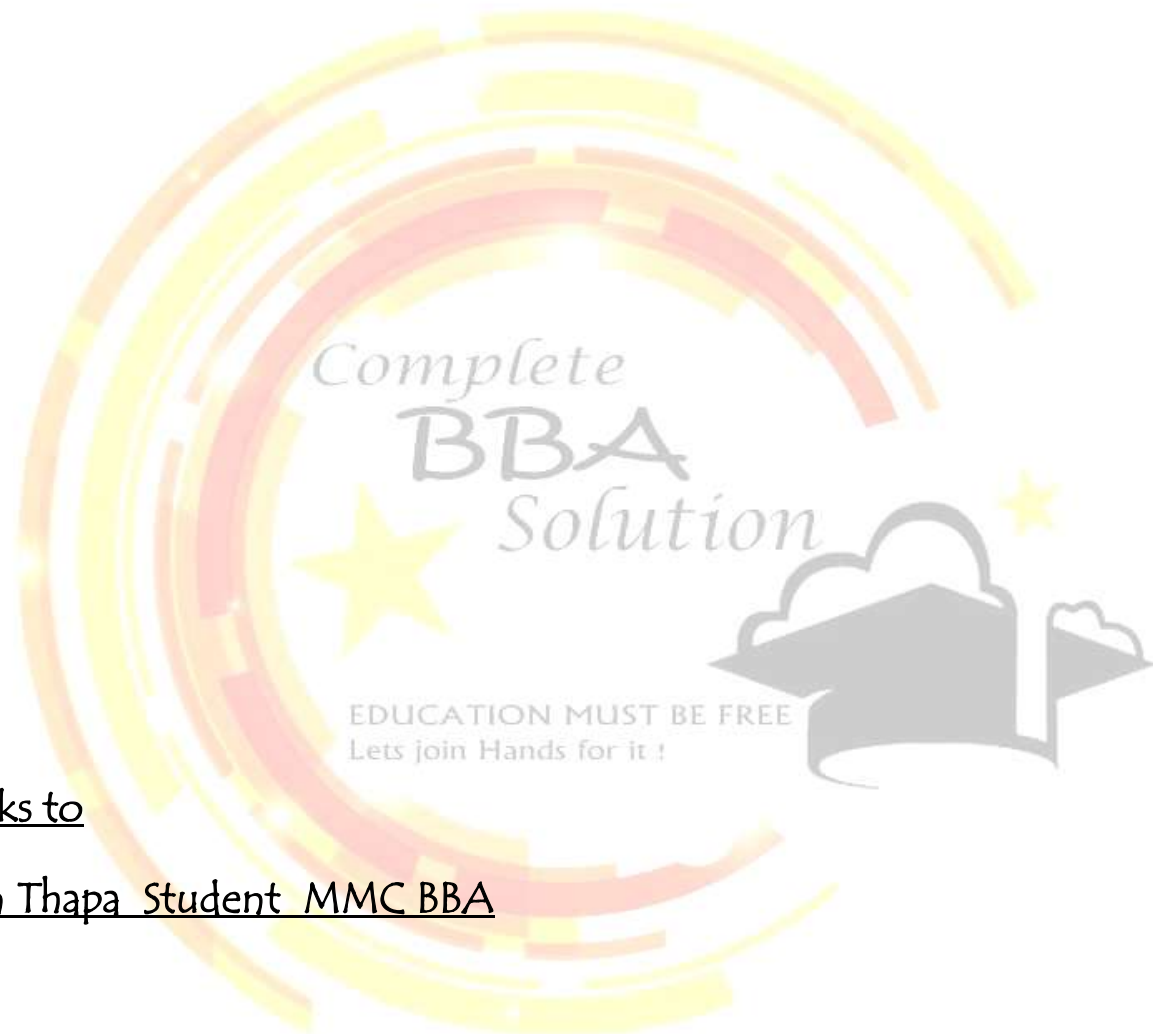
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USES OF ENVIRONMENTAL ANALYSIS IN STRATEGIC MANAGEMENT

1. Goal Formulation
2. Identification of unique resources and core competencies
3. Help in SWOT analysis
4. Formulation of strategies by matching opportunities
5. Development of options to make strategic choices for strategy formulation
6. Assessment of effectiveness of strategies to achieve mission and goals
7. Corrections needed in strategies to adapt them to environmental changes. Reformulation of strategies.

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Thanks to

Rajan Thapa Student MMC BBA

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(www.facebook.com/bishal.lonely.koirala)

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