



Business Environment



The following facts are discussed in this chapter.

- 2.1 Business environment and business activities
- 2.2 Technological and economic environment
 - Technological environment
 - Economic environment
- 2.3 Global environment and business activities
- 2.4 Importance of studying business environment

2.1 Business environment and business activities

Any business has an environment related to it. The factors within the business or outside the business affect the existence of a business either directly or indirectly. Hence, the business environment can be defined as the environment in which the factors affecting businesses are activated. The businesses require undergoing changes continuously due to the fact that environmental forces are also dynamic and businesses need to adhere to them.

For a business to be successful, it is essential to pay constant attention to its environment. New business opportunities can be identified by identifying the changes in environmental forces and different trends arising in the environment. Therefore, successful businesses continuously study the business environment and adopt their business activities accordingly.

Classification of Business Environment

The business environment can be classified mainly as follows.

- ✦ Internal Environment
- ✦ External Environment

There are different parties and forces present in both the internal and external environment of a business. This chapter discusses only the following parties and forces.

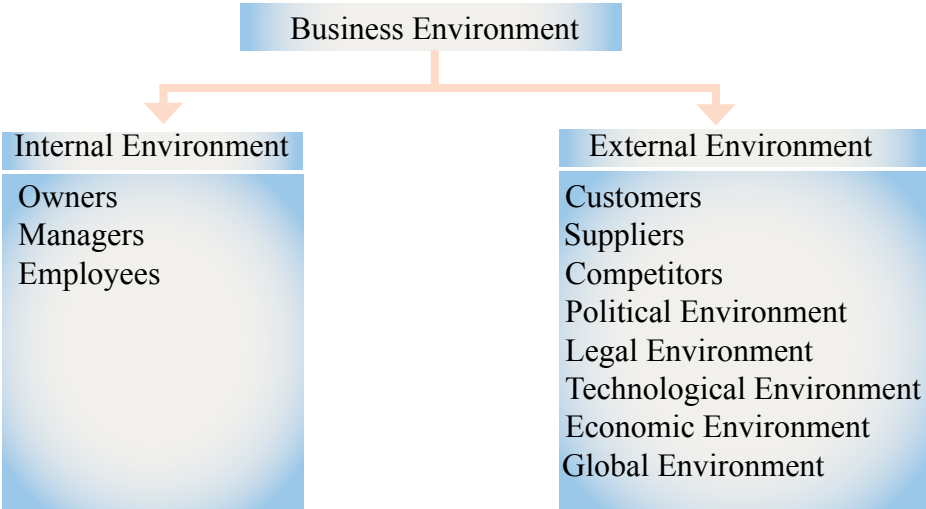


Figure 2.1 - Classification of business environment

Internal Environment

Different parties and forces acting within a business and affecting to a business are known as the internal environment. The parties within the internal environment and their impact over the businesses is depicted below.

Owners	Owners are the individuals supplying the required capital for a business. Their financial strength, business knowledge and experience will lead to the success of a business.
Managers	Managers are the individuals taking decisions to direct the resources of a business in order to achieve the objectives of its owners. The managers are responsible to build a good relationship between the customers and the employees of a business. In certain businesses, owners will also be the managers.
Employees	Employees are individuals who duly perform their tasks assigned using their own skills and competencies Their dedication and good attitudes also matter for a business to be successful.

External Environment

Different parties and forces acting outside the business and affecting to a business are known as external environment. The impact of these external environmental factors to a business is depicted below.

Customers	Customers buy goods and services of a business. The survival of a business depends on its customers. Therefore, businesses are required to identify different needs and wants of customers and satisfy them appropriately. The changes in the buying patterns of customers will have a close impact over the activities of a business.
Competitors	Competitors are the firms producing goods or services, which are similar to the goods or services of another business. The way, competitors conduct their business activities, price and quality of the competitor's products, marketing techniques, etc, would closely influence on a business.

Suppliers

The parties providing required raw materials and other services to a business are known as suppliers. It is vital to supply raw materials and other services at the right time and to provide quality raw materials to ensure continuous operations of a business.

Political Environment

In a country, the policies of a government will have an influence on the businesses. The businessmen have to conduct their businesses by considering these policies. The following are some examples for government policies.

Examples :-

- Infrastructure development policy
- Fiscal policy

Legal Environment

The legal environment consists of laws and regulations, enforced in order to protect consumers, to protect domestic manufacturers and business community and to protect the environment. In addition, the government appoints institutions, boards, commissions and responsible authorities and individuals to enact these laws. The following are some examples for such laws and regulations.

Examples :-

- Companies Act No. 07 of 2007
- Consumer affairs authority Act No. 09 of 2003
- Shop and Office Employees Act No. 14 of 1954

The following are some designations and institutions appointed to enact these laws and regulations.

Examples :-

- ✦ Registrar of Companies
- ✦ Labour Courts and Labour Tribunals
- ✦ Public Health Inspector
- ✦ Consumer Affairs Authority
- ✦ Central Environmental Authority

Due to these legal regulations and institutions, businessmen have limits over their ability to conduct businesses according to their own will. Every businessman is expected to comply with these laws and regulations that are applicable, imposed by the government.

2.2 Technological and economic environment

Technological environment

The technological environment grows rapidly due to new innovations. The business activities as well as life style of individuals have changed due to changes in the technological environmental factors. Advancement in computer technology, advancement in communication technology due to internet, advancement in production methods due to nano technology and digital technology and the advancement in transportation technology have significantly changed the business environment.



Figure 2.1

The following are some examples for the changes occurred in the business environment due to changes in technology.

Examples :-

The fabric manufacturers used simple manual weaving machines in the history. But today, they use modern machines, computer technology etc, to manufacture quality fabric at a low cost within a short period of time.

Businesses now use telephones and e-mails instead of the snail mail used in the past.

In early days, businessmen published their advertisements with their postal mail address. However, today they provide their telephone numbers, e-mail addresses and invite customers to visit their web site for more information.

Today, computers and information systems are used to record accounting information instead of the manual accounting books used in the past. Historical manual production processes are now automated using computerized machines.

Some goods and services become outdated rapidly due to rapid changes in the technology.

Economic environment

Economic environment consists of economic factors that affect businesses.The government of a country is mainly responsible for setting economic policies.

A set of economic factors can be briefly explained as follows.

Interest rate	It is the interest rate given for bank deposits and charged for bank loans.
Inflation	Inflation is the continuous increase in the general price levels of goods and services.
Income distribution	It is how the national income of a country has been distributed among its people.
Level of employment	If every one expecting a job receives a suitable job, a country will achieve a full employment level.
International relations	International relations are the relationships existing between countries. These relationships are built up through trade zones and trade agreements.
Foreign exchange rate	It is the rate at which the currency of one country is exchanged with the currency of another country.
Savings	It is the proportion of the income that individuals keep without spending on consumption. Higher the savings of a country the higher will be the amount of funds available for investment.

2.3 Global environment and business activities

Globalization is the mutual relationship among countries in terms of economic, social and cultural dimensions. Globalization facilitates the conduct of business activities freely without any cross border or any other restriction. Due to the advancement in information and communication technology, the entire world has now become a single global village. Goods and services, labour and capital, etc are moved between countries by reducing the distance among the people in different countries. Therefore, changes in different factors in the global environment will have both positive and negative impacts on the domestic businesses.

Positive impacts from the global environment on domestic businesses

- Possibility to obtain latest technology
- Possibility to obtain quality raw materials from abroad
- Possibility to obtain efficient machines
- Inflow of foreign capital
- Possibility to find foreign markets for domestic goods and services

Negative impacts from the global environment on domestic businesses

- Creating a highly competitive environment.
- Domestic skilled workers migrating to foreign countries.
- Instability of the existence of domestic businesses.
- Negative changes on the local culture.

Activity 01

Collect the information on the exchange rates relating to the currency with the Sri Lankan Rupee and fill the table.

Foreign Currency	Exchange Rate
US Dollar
British Pound
Japanese Yen
Indian Rupee
Euro



Activity 02

Write an article to your Wall Paper by collecting news on various incentives given by the government to businesses.

2.4 Importance of studying environment of a business

Every internal and external environment factor mentioned above will have an impact either positively or negatively to businesses. The businessmen are required to study the business environment in order to identify these conditions. The strengths and weaknesses of a business can be identified by studying the internal environment. The strengths can be used to grow a business, whereas weaknesses are to be minimized.

The following are some examples for strengths and weaknesses of a business.

Strengths

- Availability of adequate capital
- Experience of managers
- Specialized knowledge and dedication of employees
- Specialized production methods
- Having a recognized brand name

Weaknesses

- Business knowledge of owners is not sufficient
- Limited financial capability of owners
- Scarcity of trained workers
- knowledge about new technologies not been updated
- Negative attitudes of workers
- Geographical location of the business is unfavorable

Opportunities and threats available for a business can be identified by analyzing external environment. Hence, the businessmen can exploit the opportunities and face the threats successfully.

The following are some examples for opportunities and threats of a business.

Opportunities

- Changes in the life style of consumers
- Introducing low interest loans by the government
- Providing tax incentives for businesses
- Designing new cities
- Constructing high ways

Threats

- New competitors entering in to the industry
- Natural disasters
- Imposition of international trade embargo
- Difficulties in adapting new technological methods

Clever businessmen continuously pay their attention on the internal and external environment of a business. A business can exploit its strengths and opportunities to achieve growth in the business and take necessary steps to minimize or avoid weaknesses and threats to ensure the business stability.



Activity 03

Observe the strengths, weaknesses, opportunities and threats of a business in your area and complete the table.

Name of the business.....			
Strengths	Weaknesses	Opportunities	Threats
.....
.....
.....
.....



Activity 04

Explain five domestic and global environmental changes affecting businesses.



Activity 05

Write an article to the commerce magazine of your school on "The importance of studying business environment."