

Nature of Business Environment:

The nature of Business Environment is simply and better explained by the following approaches:

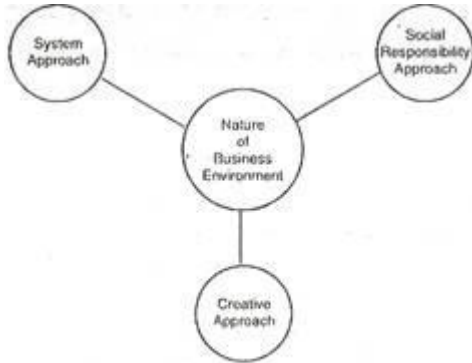


FIG. 1 : NATURE OF BUSINESS ENVIRONMENT

(i) System Approach:

In original, business is a system by which it produces goods and services for the satisfaction of wants, by using several inputs, such as, raw material, capital, labour etc. from the environment.

(ii) Social Responsibility Approach:

In this approach business should fulfil its responsibility towards several categories of the society such as consumers, stockholders, employees, government etc.

(iii) Creative Approach:

As per this approach, business gives shape to the environment by facing the challenges and availing the opportunities in time. The business brings about changes in the society by giving attention to the needs of the people.

Another approach to understand nature of business environment could be

Nature of Business Environment

The nature of business environment is highly complicated, dynamic and delicate. Every businessman should analyze it seriously, so that he may achieve objectives and goals.

The business environment is the climate or set of conditions- economic, social, political or institutional conditions in which business operations are conducted.

The environment of business consists of all those external things to which it is exposed and by which it may be influenced directly or indirectly.

Following facts are very significant to know the business environment.

These describe the nature of business environment:

1. Related to Economic Activities

The main objective of the business is to earn profits.

Hence, the business environment is related to the economic activities of the person (entrepreneur) like trade, commerce, industries, and direct services etc.

2. Dynamic Concept

The business environment is the dynamic concept.

The components of the environment are also subject to change according to the country timings, circumstances, etc.

3. Effects Various Factors

The business and its environment are interdependent and also have natural effects.

The entrepreneur or the owner of the business cannot overlook this environment and its factors.

5. The Market of Business

The environment of the business is the market of the business also because every entrepreneur provides his products and services to this environment where he earns income profits from environment alone.

6. Effect of Economic Systems

Economic systems also affect the business environment.

The business environment of any particular country is in consonance with capitalist, communist, socialist, and mixed systems, etc.

For example, the public sector and private sectors, both developed in India, as the adoption of the mixed economy.

7. Internal and External Environment of the Institutions

Every enterprising, institution has two types of environment internal and external.

The institution has control over its internal environment, but it has no control over the external environment.

Hence, the business organization has to mould itself, according to the external environment.

8. Formulation of Working Plans

While planning a business institution policy that effectively achieves its objectives and goals.

During the formulation of these working plans, environment-related information is kept into consideration.

9. Creation of Utilities by Transformation

Whatever the business organization gets from the environment is returned back to the environment.

In this process, he carries out the transformation of sources, by which various types of utilities are created.

The requirements and expectations of the consumers are satisfied by these utilities (form, place, time and rights).

10. Two Way Communication Arrangement

Every business institution keeps regular contacts with its environment. It has to keep knowledge of the ongoing changes and also has to provide information about its products and services policies etc. to the environment.

This way, it has to adopt two-way communication arrangements.

11. Dynamic

The environment of each business institution is dynamic no institution can work in the vacuum.

So, nature and scope of business environment is very wide.

12. Complementary and Dependent

The entrepreneurial environment is the part of the total economic and non-economic environment, within which entrepreneurship develop.

Such conditions, favourable entrepreneurial environment results in the creation of a favourable business environment.

Thus, it is evident the business environment and entrepreneurial environment complement each other and are also dependent on each other.

13. Complicated System

The business environment is a complicated system, which is the outcome of various factors or components of elements.

Besides, they also affect the business activities in various forms.

14. Classifications of Boundary Lines, Controlling Factors, Pressures, and Restrictions

The environment clarifies the boundaries, controlling factors, pressures, and restrictions, within which the firm has to carry out its business activities.

Thus, now you know the how is the nature of business environment.

Importance of Business Environment

There is a close and continuous interaction between the business and its environment. This interaction helps in strengthening the business firm and using its resources more effectively. As stated above, the business environment is multifaceted, complex, and dynamic in nature and has a far-reaching impact on the survival and growth of the business. To be more specific, proper understanding of the social, political, legal and economic environment helps the business in the following ways:

- **Identifying Firm's Strength and Weakness:** Business environment helps to identify the individual strengths and weaknesses in view of the technological and global developments
- **Determining Opportunities and Threats:** The interaction between the business and its environment would identify opportunities for and threats to the business. It helps the business enterprises for meeting the challenges successfully.
- **Giving Direction for Growth:** The interaction with the environment leads to opening up new frontiers of growth for the business firms. It enables the business to identify the areas for growth and expansion of their activities.
- **Continuous Learning:** Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in realm of business.
- **Image Building:** Environmental understanding helps the business organisations in improving their image by showing their sensitivity to the environment within which they are working.
- **Meeting Competition:** It helps the firms to analyse the competitors' strategies and formulate their own strategies accordingly.

Significance of Business Environment:

Business Environment refers to the "Sum total of conditions which surround man at a given point in space and time. In the past, the environment of man consisted of only the physical aspects of the planet Earth (air, water and land)

and the biotic communities. But in due course of time and advancement of society, man extended his environment through his social, economic and political function.”

In a globalised economy, the business environment plays an important role in almost all business enterprises. The significance of business environment is explained with the help of the following points:

(i) Help to understand internal Environment:

It is very much important for business enterprise to understand its internal environment, such as business policy, organisation structure etc. In such case an effective management information system will help to predict the business environmental changes.

(ii) Help to Understand Economic System:

The different kinds of economic systems influence the business in different ways. It is essential for a businessman and business firm to know about the role of capitalists, socialist and mixed economy.

(iii) Help to Understand Economic Policy:

Economic policy has its own importance in business environment and it has an important place in business. The business environment helps to understand government policies such as, export-import policy, price policy; monetary policy, foreign exchange policy, industrial policy etc. have much effect on business.

(iv) Help to Understand Market Conditions:

It is necessary for an enterprise to have the knowledge of market structure and changes taking place in it. The knowledge about increase and decrease in demand, supply, monopolistic practices, government participation in business etc., is necessary for an enterprise.

