

# Types of Business Environment

**Simply**, the environment is the surrounding, condition, forces, object in which someone or something operates or exists. But in the field of [management](#), Environment (or Business Environment) is all the forces, factor, or institution that influences its operation. Business Environment is categorized into two types; Internal Environment and External Environment. All conditions and forces within the organization affecting its operation are called internal environment and external environment refers to forces and institutions outside the organization that potentially can affect the organization's performance. **Organizational performance largely depends upon the ability of an organization to develop mechanisms for coping with these environmental influences.**Let's discuss it in detail.

## What is business environment?

The business environment consists of all components of the surrounding of a business organization that affects or influence its operation, growth, and its expansion.

### According to Keith Davis

“Business environment is the aggregate of all conditions, events, and influences that surround and effect a business.”

### According to Stephen P Robbins and Marry couller“

Environment refers to institutions or forces that affect the organizations' performance.”

## Types of Business Environment

### Internal Environment

All condition and forces within the organization that affects its operation are known as the internal environment. Internal environment discloses the strength and weakness of the organization. The components of the internal environment are controllable to some extent. Organizational performance depends upon the ability of management how they coping these influences. The components of the internal environment consist of are;

### Component of Internal Environment

#### Owners

Owners are the investors who invest their money and wealth in an organization. They are directly or indirectly involved in the management of an organization. They have the legal rights to the property and assets of the business. The interest of investors also affects business performance. For example; if investors want to get more return on their investment then the price of the product should increase. With the increase in price, organizations can't run in the long run or be competitive with their competitors.

## **Board of Director**

The board of directors is the shareholder representative who is responsible for preparing long-term plans and business strategies of the organization. They are the top executive who controls the overall organization. The organizational performance also depends upon the ability of the board of directors to manage the business.

## **Organizational Resources**

Every organization needs resources such as human resources, financial resources, and other physical resources and information also. The success and failure of an organization depend upon the effective and efficient utilization of resources.

## **Organizational structure**

The organizational structure represents the way of performing the business activities, rules, regulations, and procedures of an organization. It also defines the formal relationship between executives and subordinates.

## **Organizational Culture**

[Organizational culture](#) is the set of values, rituals, norms, and practices that its member understands how to perform things, what is important for the organization or not. The organization's culture should be changed according to time and conditions for effective performance.

## **External Environment**

The external environment refers to forces and institutions outside the organization that potentially can affect the organization's performance. It helps managers to identify opportunities and threats of the organization. It is mainly uncontrollable in nature. The external environment can be further classified into two types;

### **Task Environment**

The task environment consists of specific organizations or groups that influence an organization's performance directly. These groups affect a manager's ability to utilize the resources and sales output. Such an environment has a direct and immediate impact on managerial decisions and directly affects the achievement of organizational goals. It can be controlled up to some extent, depends upon the ability of managers. It is also called **microenvironment or competitive or operating environment.**

### **Components of Task Environment**

Customer

Customers are known as the '**King of Business**'. Customers pay for goods and services which is the sources of revenue of the business. Customer preferences and tastes should be changed from time to time. So, managers have to involve in activities of innovation, research, the introduction of new technology to satisfy the need of customers.

#### **Suppliers**

Suppliers are the parties and institutions that supply raw materials, machines, and other resources to organizations for production. So, the manager has to maintain good relation with the supplier by making payment on time. As a result, they supply materials on time which is helpful for the smooth performance of the business.

#### **Competitors**

Competitors refer to those business institutions that provide similar kinds of products or services. If the business doesn't give a care about its competitors' activities, an organization may lose the customer. So, managers have to forecast customer demand and develop new strategies to increase market share before their competitors.

#### **Government**

It is the regulatory agencies or institution that provides laws and facilities for business control and growth. A manager has to understand changing rules, regulations, and laws of government regarding business because business cannot go against government rules.

#### **Pressure group**

Organizations like customer right association, social clubs, labor unions, etc are pressure groups for businesses that work for the welfare of people and society. For any business to be successful, it has to maintain a healthy relationship with pressure groups in order to run the business in the long run.

#### **Financial Institution**

It consists of commercial and development bank, finance companies, insurance, etc. These institutions provide loan facilities to businesses in case of money shortage in the organization. Therefore, a business organization has to maintain good relations with financial institutions. The manager has done it by paying loans and interest in time.

### **General Forces**

The general environment affects the overall organization. It is also called a remote or macro-environment. It is the set of those forces which are outside the organization's operating system- they are; **political, economical, social-culture, and technology factors**. These are the forces that are beyond the control of business firms. Hence, they are uncontrollable factors. The general environment presents opportunities, threats, and constraints for the organization.

#### **Components of General Force**

#### Political- legal forces

Political-legal forces affect business. The political-legal forces refer to government regulation and the legal system for business. Generally, the political-legal environment is influenced by three institutions; legislature, executive, and judiciary. These institutions play a major role in directing, developing, and controlling business activities respectively. Organizations can't control these forces, so managers should run the business according to these institutions or forces.

#### Economic Forces

Economic forces indicate the system of producing and distributing goods and services. They refer to all factors which give shape and form to the development of economic activities. These forces involve economic systems, economic policies, economic conditions, capital markets, and also globalization. With the change in these forces, business plans, policies, and systems should be changed.

#### Socio-Culture forces

Socio-culture forces are comprehensive since they include the total social forces within which an organization operates. These forces involve tradition, social values, beliefs, norms, attitudes, customs, and also demographic composition. All the elements of the social-culture environment are adaptable, share, and interrelated. Organizations shouldn't go against social-culture forces. Organizations should operate by considering society norms, values.

#### Technology

Technology is the method or process of converting inputs into output. It focuses on machines and equipment, the transmission of information, new techniques and processes, research, and development. With the change in technology, the organization should also change their technology to run business in the long run. It is the responsibility of the manager to make research about new and innovative technology beneficial to the organization.

**In conclusion,** Managers have to focus on all the forces for the smooth performance of the business, managers can't go against these external forces. They have to manage organizational structure by considering these factors in account for the success of the organization in long run.