

Q. What is Internal and External Environment?

The key difference between internal and external business environment is that internal environment is specific and has a direct impact on the business, whereas external environment has an impact on all business groups, not just one particular business.

1. Internal Business Environment:

Internal environment refers to the environment that is in direct contact with a business organization and can directly affect the activities of the business. The internal environment comprises of factors like competitors, suppliers, customers, employees, shareholders.

In other words, the internal environment is a collection of all the forces that are close to the business organization. Moreover, these factors have a short term impact on the organization.

Components of the Internal environment :

Organis Internal factors are controllable factors and organization can alter, modify, introduce or phase out such factors as per requirement of the environment.

The components of internal environment are :->

Organization Culture :

The culture of an organization refers to values, style and learned ways that shape the collective behaviour of humans within an organization.

A healthy culture shared by all within organization promotes mutual co-operation and provides satisfaction among all employees acts as a great internal strength of the business firm.

Vision, mission and objectives :

Vision, mission and objectives of a company provide a roadmap that guides its philosophies, priorities, policies.

For instance, Wal-Mart store's vision is "To become the worldwide leader in retailing" and mission is "To help people save money so they can live better".

3. Top Management Structure :

The composition of the board of directors and the extent of professionalism of management greatly affects the success and failure of an organization for achieving its vision, mission, and objectives.

4. Human Resources :

Workforce is entitled as greatest asset of an organization as it plays an important role in both strategy implementation and management system.

A committed and talented workforce with leadership skills ensures the success of the business.

5. Company's image :

Company's image is more than its colourful logos, artistic designs, and creative website etc.

Launching new products, attracting potential customers, restraining competitive attacks, raising finance, forming joint ventures greatly depends on upon company's image.

6. Miscellaneous factors :

Miscellaneous factors that highly affect decision-making capabilities of business include :-

Natural resources :

Adequate access to natural resources such as water, wood, iron, coal, mineral deposits etc. considered valuable available for commercial disposal

Financial resources :

Money available in the form of cash and securities held by an organization is a prominent criterion to determine its real internal strength.

Financial resources determine company's size and capacity to expand its operations as against competitors.

Physical resources :

Physical resources include production facilities mainly machinery, IT equipment, vehicles and distribution networks, physical infrastructure, etc available to an organization needed for smooth running of business.

Research & development capabilities :

Investment in research & development activities ensures company's ability to innovate new products for meeting diverse customer expectations.

Other factors such as the location of business, patents & trade secrets,

operational capabilities & structure forms part of the business internal environment that influence the functioning of business.

2. External Business Environment :-

External environment of a business refers to the outside factors that influence the organizational performance, decision making and strategy of all businesses. It does not affect only one business entity but has an impact on similar business groups at the same time.

Macro environment is another name for the external environment. In the context of macro, it stands for global scale or large scale. Moreover, it has a vibrant nature which keeps changing.

The external business environment is classified into the Micro and Macro Environment.

* Micro Environment includes,

1. Customers :

Customers are people who buy an organization's products / services. In simple words, an organization can't survive without customers. A consumer, on the other hand, is the ultimate user of the product / service.

For example, a husband might purchase a product for his wife. In this case, the husband is the customer and the wife is the consumer.

A successful business keeps a close watch on both customers and consumers of its product / services. It must monitor and track any changes in tastes and preferences of the consumer along with changes in the buying habits of the customer.

2. Suppliers :

Suppliers are another important component of the micro environment. Organizations depend on many suppliers for equipment, raw material, etc. to maintain their production. Suppliers can influence the cost structure of the industry and ~~are~~ hence a major force.

In other words, suppliers are those who supply inputs and components in the form of raw-material, labour and capital to the company for the production process.

3. Competitors :

Every business has competition. Competitors are other organizations that compete with each other for both resources and markets. Hence, it is important that an organization is aware of its competitors and in a position

to analyze threats from its competition. A business must be aware of its competitors, their strengths and weakness, and the most aggressive and powerful competitors at all times.

Further, an organization can have direct or indirect competitors. When organizations are involved in the same business activity, they compete for both resources and markets. This is Direct competition.

4. Market Intermediators :

Intermediaries are also a major determining force in business. Most customers are unaware of the manufacturer of the products they buy since they approach retailers, departmental store, chain stores or online stores for their purchases.

5. Public :

The environmentalists, consumer protection groups, media, local people, student unions, religious groups etc. can affect the working of the business.

The firm has a primary duty to satisfy the general public at large along with customers. Creating positive image among the public has a long term impact on the company well being.