Explain the factors/components/forces/elements/constituents of the internal environment of the business enterprise?

Introduction:

No business enterprise functions in a vaccum. It is a product of business ecology i.e., business environment. Nature, location, product/service, size, volume price, policies and decisions of the business enterprise are influenced by the business environment. A business units decisions and performance are influenced by a wide variety of factors, which are called

Business Environment.

Business Environment refers to all the external forces which have a bearing on the functioning of business. The literary meaning of Business Environment means the surroundings,external objects influences etc., Business Environment is the aggregate of all conditions, events and influences that surrounds and affects a business unit. Business Environment poses certain threats to a business unit. Business Environment gives immense opportunities for market

Definition:

According to William F. Glucck and Lawrance R. Jauch, " The Business Environment includes factors outside the firm, which can lead to opportunities for or threats to the firms. Although there are many factors, the most important of the factors are socio-economic, technological, suppliers, competitors and government."

According to Barry M. Richman and Melvyn Copen , " Environmental factors or constraints are largely, if not totally, external and beyond the control of individual industrial enterprise and their managements. These are essentially the "givens" within which the firms and their managements must operate in a specific country and they vary, often greatly from country – to– country."

Factors/components/forces/elements/constituents of the internal environment :

1. Value system:

Value system of the founders and persons holding top positions have some values. These values influence their policies, practices, choice of business, vision-mission and objectives of the organization. Eg: TISCO incorporated its social responsibility to consumers, employees, shareholders, society and the people in articles of association. This is due to the value system ofJRD Tata and acceptance of it by persons at the top of Tata business domain.

2. Vision-mission-objectives:

Vision-mission and objectives of the company decide the business domain, priorities, direction of the development, business philosophy, business policy. Eg: Ranbaxy's thrust into the foreign markets and development have been driven by its mission " TO BECOME A RESEARCH BASED INTERNATIONAL PHARMACEUTICAL COMPANY."

3. Management structure and nature:

Some complex management structures and styles delay decision making. Quality of the board of directors is a vital element. There are some companies with highly qualified and responsible board. Some companies have dishonest and unscrupulous board. Eg: in some companies like WIPRO majority of the shares are held by promoters. In the case of TATA group of companies, the share of promoters is very vulnerable. Financial institutions had large shareholding in many Indian companies.

4. Internal power relationship:

Relationship between board members and the CEO is a critical factor. The cordiality between them is more important. Support enjoyed by top management from different levels of employees, shareholders and board of directors influences the decisions and their implementation.

5. Human resources:

Skill, quality, morale, commitment, attitude of people contribute to the strength of the enterprise. Employee resistance to change is a barrier to growth of an organization. Involvement, initiative of people vary from organization-to-organisation. Eg: john towers, M.D. Rover group observes that a Japanese company of 30000 employees is 30000 process improves.Such a situation cannot be found in an Indian company.

6. Company image and rand equity:

Image of the company plays a significant role while raising finance, forming joint ventures, soliciting marketing intermediaries, entering sale or purchase contracts, launching new products etc., brand equity is also relevant.

7. Physical assets and facilities:

Production capacity, technology and efficiency of productive equipment, distribution logistics influence the competitiveness of the enterprise.

8. Research and development:

Research and development and technological capabilities determine a company’s ability to innovate and compete.

9. Marketing resources:

Marketing efficiency of the business unit depends on marketing organization, quality of the marketing men, brand equity and distribution network.

10. Financial factors:

Financial factors like financial policies, financial position and capital structure influence business performance.

Micro Environment

Micro environment is the operating environment of the firm. This is because the functioning of the micro environment has a direct and immediate bearing on the company. They are more interlinked with the company than macro environmental factors.

Customers

The main purpose for the existence of most organizations is to satisfy the needs and wants of the customers. The enterprise aims to please the customer and earn a profit in return. So the ultimate aim is to provide the best products/services to the customer at the best prices. Failure to do so may result in failure of the business.

This is why it has become increasingly important to listen to customers and value their feedback. This is why customer consumer surveys have increasing importance in today's markets.

Competitors

There are no pure monopolies in the world. Every organization, whether big or small, has competition and competitors. So the company has to keep a constant check on their competitors. The company must ensure that their products have a

USP that makes them different and unique in the market. The products offered must also be better and cheaper than those of the competition.

Employees

Employees or labor is one of the most important factor of production for a company. Human resources are a significant factor in the success (or failure) of a firm. Hence employing the correct people, best suited to your firm is of vital importance. And training and development of these employees is also essential. If care is not taken in this matter the organization can never succeed, because employees are the back bone of every organization.

Shareholders

Shareholders invest in the company, but they are not merely investors. They own shares of the company, so they are actually owners of the company in a way. This means they get a say in the running of a company.

Shareholders will also demand a return on their investment. So it is the company's duty to earn profits and pass on this benefits to the shareholders. They have to create wealth for these shareholders. To keep their interest dividends also have to be paid. So the company must find the right balance between the health of the company and the benefits to the shareholders.

Suppliers

Suppliers provide the firm with the materials and factors of production they need to run the business. The relation between the company and the suppliers is a power equation. Both depend on each other for their survival.

So it is necessary for the company to have healthy and amenable relations with their suppliers. This is essential to the smooth running of the organization. For example if the company has a falling out with one raw material supplier it could delay their whole production process by days.

<u>Media</u>

Every company is going to need media to promote their brand and market their products. So it is necessary that the company maintain their relationship and their status quo with the media. Any negative coverage in the media can lead to huge losses for the company. This is why companies hire PR managers to help them use the media to a positive effect.

Macro Environment

Macro environment is the remote environment of the firm, i.e the external environment in which it exists. As a rule this environment is not controllable by the firm, it is to huge and to unpredictable to control. Hence the success of the company, to a large extent will depend on the company's ability to adapt and react to the changes in the macro environment.

Primarily the company has to closely monitor the various elements of macro environment. This will help them understand the dynamic nature of the macro environment. It also helps them adapt to the constant changes in the environment.

<u>Socio-Cultural Environment</u>

The social values and culture of an environment play a huge role in the functioning of the company. So when the social environment changes it can have a direct or indirect effect on the company. For example in recent time society has seen a shift, and people no longer retire at 60. They work five to ten years more after sixty. So this has had a huge impact on companies.

Cultural forces also have a significant impact on the success of a company in the long run. Especially in a country like India where the cultural influences are strong and complicated.

Technological Environment

In the times we live in, technology is constantly changing it is important that the business can keep up with the changes. Technology does not only confine to computers and IT services. It includes products, manufacturing processes, techniques etc.

The technological developments can be a huge advantage for a firm. But at the same time of the technology used by the firm becomes obsolete due to such developments, then it can also be a threat to the firm.

Economic Conditions of the Market

The economic conditions of the economy and the performance of a business have a very close relationship. A business depends on the economy for all its inputs and factors of production. It also sells its products and services in the same market.

A market is never in one stable condition. It is always in a flux. If there is a boom in the market then all businesses will benefit from the favorable conditions. The income will be higher, rate of interests will be low, new capital will be available etc. Also, the opposite is also true in case of a bust.

Ecology and Physical Environment

Ecology and physical environment play a huge part in the performance of any business. This is especially true for manufacturing/production companies. Let us take the example for global warming. This change in our physical environment has started affecting the rainfall in certain regions. This in turn may affect the crops and cause a shortage in raw materials such as jute, cotton, rubber etc.

Weather conditions, topographical elements, geographical location, climate changes and other ecological factors are a very important element in the macro environment of a business.

Political and Legal Factors

The political environment of a country is the combination of three branches of the government – legislature, executive and the judiciary. The political environment of a country will mainly depend on the political beliefs and ideologies of the party in power at the state and central levels.

The legal environment refers to the rules, laws, regulations, and judgments etc. that affect the functioning of a business. And this will also include the taxation laws and the Budget for the given year. So stable legal and political government is really important if the business and the economy as a whole has to succeed.

Features of Multinational Corporations (MNCs):

Following are the salient features of MNCs:

(i) Huge Assets and Turnover:

Because of operations on a global basis, MNCs have huge physical and financial assets. This also results in huge turnover (sales) of MNCs. In fact, in terms of assets and turnover, many MNCs are bigger than national economies of several countries.

(ii) International Operations Through a Network of Branches:

MNCs have production and marketing operations in several countries; operating through a network of branches, subsidiaries and affiliates in host countries.

(iii) Unity of Control:

MNCs are characterized by unity of control. MNCs control business activities of their branches in foreign countries through head office located in the home country. Managements of branches operate within the policy framework of the parent corporation.

(iv) Mighty Economic Power:

MNCs are powerful economic entities. They keep on adding to their economic power through constant mergers and acquisitions of companies, in host countries.

(v) Advanced and Sophisticated Technology:

Generally, a MNC has at its command advanced and sophisticated technology. It employs capital intensive technology in manufacturing and marketing.

(vi) Professional Management:

A MNC employs professionally trained managers to handle huge funds, advanced technology and international business operations.

(vii)Aggressive Advertising and Marketing:

MNCs spend huge sums of money on advertising and marketing to secure international business. This is, perhaps, the biggest strategy of success of MNCs. Because of this strategy, they are able to sell whatever products/services, they produce/generate.

(viii) Better Quality of Products:

A MNC has to compete on the world level. It, therefore, has to pay special attention to the quality of its products.

Advantages and Limitations of MNCs:

Advantages of MNCs from the Viewpoint of Host Country:

We propose to examine the advantages and limitations of MNCs from the viewpoint of the host country. In fact, advantages of MNCs make for the case in favour of MNCs; while limitations of MNCs become the case against MNCs.

(i) Employment Generation:

MNCs create large scale employment opportunities in host countries. This is a big advantage of MNCs for countries; where there is a lot of unemployment.

(ii) Automatic Inflow of Foreign Capital:

MNCs bring in much needed capital for the rapid development of developing countries. In fact, with the entry of MNCs, inflow of foreign capital is automatic. As a result of the entry of MNCs, India e.g. has attracted foreign investment with several million dollars.

(iii) Proper Use of Idle Resources:

Because of their advanced technical knowledge, MNCs are in a position to properly utilise idle physical and human resources of the host country. This results in an increase in the National Income of the host country.

(iv) Improvement in Balance of Payment Position:

MNCs help the host countries to increase their exports. As such, they help the host country to improve upon its Balance of Payment position.

(vi) Technical Development:

MNCs carry the advantages of technical development 10 host countries. In fact, MNCs are a vehicle for transference of technical development from one country to another. Because of MNCs poor host countries also begin to develop technically.

(vii) Managerial Development:

MNCs employ latest management techniques. People employed by MNCs do a lot of research in management. In a way, they help to professionalize management along latest lines of management theory and practice. This leads to managerial development in host countries.

(viii) End of Local Monopolies:

The entry of MNCs leads to competition in the host countries. Local monopolies of host countries either start improving their products or reduce their prices. Thus MNCs put an end to exploitative practices of local monopolists. As a matter of fact, MNCs compel domestic companies to improve their efficiency and quality.

In India, many Indian companies acquired ISO-9000 quality certificates, due to fear of competition posed by MNCs.

(ix) Improvement in Standard of Living:

By providing super quality products and services, MNCs help to improve the standard of living of people of host countries.

(x) Promotion of international brotherhood and culture:

MNCs integrate economies of various nations with the world economy. Through their international dealings, MNCs promote international brotherhood and culture; and pave way for world peace and prosperity.

Limitations of MNCs from the Viewpoint of Host Country:

(i) Danger for Domestic Industries:

MNCs, because of their vast economic power, pose a danger to domestic industries; which are still in the process of development. Domestic industries cannot face challenges posed by MNCs. Many domestic industries have to wind up, as a result of threat from MNCs. Thus MNCs give a setback to the economic growth of host countries.

(ii) Repatriation of Profits:

(Repatriation of profits means sending profits to their country).

MNCs earn huge profits. Repatriation of profits by MNCs adversely affects the foreign exchange reserves of the host country; which means that a large amount of foreign exchange goes out of the host country.

(iii) No Benefit to Poor People:

MNCs produce only those things, which are used by the rich. Therefore, poor people of host countries do not get, generally, any benefit, out of MNCs.

(iv) Danger to Independence:

Initially MNCs help the Government of the host country, in a number of ways; and then gradually start interfering in the political affairs of the host country. There is, then, an implicit danger to the independence of the host country, in the long-run.

(v) Disregard of the National Interests of the Host Country:

MNCs invest in most profitable sectors; and disregard the national goals and priorities of the host country. They do not care for the development of backward regions; and never care to solve chronic problems of the host country like unemployment and poverty.

(vi) Misuse of Mighty Status:

MNCs are powerful economic entities. They can afford to bear losses for a long while, in the hope of earning huge profits-once they have ended local competition and achieved monopoly. This may be the dirties strategy of MNCs to wipe off local competitors from the host country.

(vii) Careless Exploitation of Natural Resources:

MNCs tend to use the natural resources of the host country carelessly. They cause rapid depletion of some of the non-renewable natural resources of the host country. In this way, MNCs cause a permanent damage to the economic development of the host country.

(viii) Selfish Promotion of Alien Culture:

MNCs tend to promote alien culture in host country to sell their products. They make people forget about their own cultural heritage. In India, e.g. MNCs have created a taste for synthetic food, soft drinks etc. This promotion of foreign culture by MNCs is injurious to the health of people also.

(ix) Exploitation of People, in a Systematic Manner:

MNCs join hands with big business houses of host country and emerge as powerful monopolies. This leads to concentration of economic power only in a few hands. Gradually these monopolies make it their birth right to exploit poor people and enrich themselves at the cost of the poor working class.