

# impact of external environment on business

[Finance](#), [Financial Analysis](#)



\* Impact of external environment on Business\* For success in the present world, one need to consider not only the internal environment of the company consisting of its resources and employees, but also needs to consider the external factors. These aspects cannot be stopped but one can adjust accordingly as per the changes in the economical, social or political pressures. These are the external factors which consist of: - Opponents or competitors - The changing economic structure - Impact of the society - Financial arrangement - Legal or political system - The impact of the environment Opponent's procedures influence the capability of work in earning profits, as the basic aim of the opponent is to get advantage over the other which is obtained by either diversifying the existing products and services or by finding means to offer better options for the same worth of money. There are three stages of opposition existing in the present world organizations which can be either having a straight competition when the associations are challenging for the similar customers with the analogous products for example grocery or bakery items. Or when there is a rivalry existing between goods that can be replaced with one another for example butter for margarine. Similarly when consumer's purchasing power is the main attraction for the producers it results in competition between organizations for example the entertainment sector. The allocation of the scarce resources is handled by the organization comprising the economic system. Economy is part of a nation which is expected to under go phases of progress by leaps and bounds. When the economy is in a flourishing stage lifting the standards of living resulting in the growth of the business. On the

other hand the society is a foundation of inspirations, outlook and activities which are a part of the human affairs. However the business is subjective to change by the actions of customer because of their approach and activities which alter depending on various factors such as maturity level, populace, type of vocation, and spare time activities. Alternatively fiscal classification smoothes the progress of trade alternates. Activities dealing with money basically move around producing, having a loan, expenses and banking. For the lubrication of the wheels of commerce, capital is considered to be the main oil. Monetary doings engross production in a network of contacts linking fiscal bodies which consists of banks, people or companies who grant loans or to whom money is given as advance, clients and contractors. A main factor affecting the business is the interest rate because it is directly proportional with the cost of the company. The elevated the rate, more will be the expenditure to act as a stop on payments in the economy. The rules and regulations created by the legal system provide the framework on which the organization runs. Administration policy of any nation shores up by promoting activities like ventures while puts off others which result in polluting the natural environment. In contrast the environment is made up of all the nature's gifts bestowed upon us ranging from land to water and to air which has any sort of life in it. Progressively more productions have turned out to be alert of the affiliation between their cost-effective movements that is composing produces and providing assistance for earnings making sure the environment is not at stake at any cost. If there is anything that is steady fast and unchanging, it is change itself. Change is inevitable, and those

organizations who do not keep up with change will become unstable, with long-term survivability in question. There are things, events, or situations that occur that affect the way a business operates, either in a positive or negative way. These things, situations, or events that occur that affect a business in either a positive or negative way are called "driving forces or environmental factors." There are two kinds of driving forces; Internal driving forces, and external driving forces. Internal driving forces are those kinds of things, situations, or events that occur inside the business, and are generally under the control of the company. Examples might be as follows: organization of machinery and equipment, technological capacity, organizational culture, management systems, financial management, employee morale. External driving forces are those kinds of things, situation, or events that occur outside of the company and are by and large beyond the control of the company. Examples of external driving forces might be, the industry itself, the economy, demographics, competition, political interference, etc. Whether they are internal or external driving forces, one thing is certain for both. Change will occur! A company must be cognizant of these changes, flexible, and willing to respond to them in an appropriate way. External driving forces can bury a business if not appropriately dealt with. The question is, how does a business know what changes are occurring so that they can deal with them in a positive way. OK, that's the next issue. In order for a business to succeed and gain the competitive edge, the business must know what changes are indeed occurring, and what changes might be coming up in the future. I guess you might call this forecasting.

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Thus, critical to the business is what we call "informational resources." It is the collection and analyzation of data. Some examples of critical information might include the following: \* Competition (what are they doing?) \* Customer behavior (needs, wants, and desires) \* Industry out look (local, national, global) \* Demographics (the change populations, there density, etc.) \* Economy (are we peaking, or moving negatively) \* Political movements and/or interference \* Social environment \* Technological changes \* General environmental changes

The above are just some issues organizations must be on top of. Well it's never easy, but businesses that are successful include all of the above (and more), to develop the appropriate tactics, strategies, and best practices, to ensure successful out comes. External environment factors

PESTEL analysis stands for " Political, Economic, Social, and Technological, Environmental and Legal analysis". It is a part of the external analysis when conducting a strategic analysis or doing market research and gives a certain overview of the different macroenvironmental factors that the company has to take into consideration. Political factors, or how and to what degree a government intervenes in the economy. Specifically, political factors include areas such as tax policy, labour law, environmental law, trade restrictions, tariffs, and political stability. Political factors may also include goods and services which the government wants to provide or be provided (merit goods) and those that the government does not want to be provided (demerit goods or merit bads). Furthermore, governments have great influence on the health, education, and infrastructure of a nation. Economic factors include economic growth, interest rates, exchange rates and the

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inflation rate. These factors have major impacts on how businesses operate and make decisions. For example, interest rates affect a firm's cost of capital and therefore to what extent a business grows and expands. Exchange rates affect the costs of exporting goods and the supply and price of imported goods in an economy. Social factors include the cultural aspects and include health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety. Trends in social factors affect the demand for a company's products and how that company operates. For example, an ageing population may imply a smaller and less-willing workforce (thus increasing the cost of labor). Furthermore, companies may change various management strategies to adapt to these social trends (such as recruiting older workers). Technological factors include ecological and environmental aspects, such as R&D activity, automation, technology incentives and the rate of technological change. They can determine barriers to entry, minimum efficient production level and influence outsourcing decisions. Furthermore, technological shifts can affect costs, quality, and lead to innovation. Environmental factors include weather, climate, and climate change, which may especially affect industries such as tourism, farming, and insurance. Furthermore, growing awareness to climate change is affecting how companies operate and the products they offer--it is both creating new markets and diminishing or destroying existing ones. Legal factors include discrimination law, consumer law, antitrust law, employment law, and health and safety law. These factors can affect how a company operates, its costs, and the demand for its products.

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