

# Business Environments

by Sophia



## WHAT'S COVERED

As humans, we seek to understand the world around us. Why do you think we do that? The world is constantly changing, and as humans, we have to understand those changes and react to them in order for us to thrive and survive into the next generation. This tutorial provides an overview of the different external environments that impact a business. Our discussion breaks down as follows:

1. External Business Environments
2. Major Types of External Business Environments
  - 2a. Domestic Business Environment
  - 2b. Global Business Environment
  - 2c. Technological Environment
  - 2d. Political-legal environment
  - 2e. Sociocultural Environment
  - 2f. Economic Environment

## 1. External Business Environments

**External environments of business** is simply defined as the conditions outside of a business that affect how it operates. The business has to consider these things in order to survive, yet they have very little control over these particular environments. As a matter of fact, they have to react or predict--sometimes wrongly--how these environments are going to change.

In addition, the environments don't stand alone. What happens in one environment can directly affect what happens in another environment. Another important consideration is that large companies are going to react differently than small ones. They have many different divisions of labor that they can use to help predict and react to these external environments and how they're changing, whereas small businesses have a tougher time because they don't have the same division of labor.



### TERM TO KNOW

#### External Environments of Business

## 2. Major Types of External Business Environments

There are six major types of external environments that can affect a business in vastly different ways.

### 2a. Domestic Business Environment

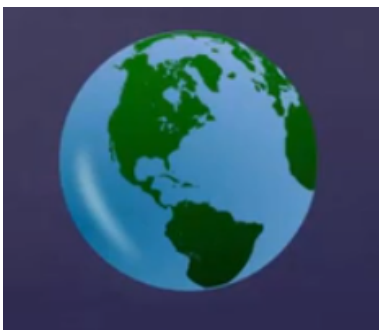
The domestic business environment refers to business done within a company's own nation. In this, the company has a distinct advantage working locally. Not only do they better understand the geography and the laws and the taxes, but also the currency and the culture of the people within that nation that they do business with on a regular basis. Therefore, they have a distinct advantage over other companies coming in from different countries.



⇒ **EXAMPLE** The Ford Motor Company, for instance, makes cars in the United States based on the feedback it receives from the consumers regarding what they want in a car. Germany, on the other hand, who makes Volkswagen's or BMW's, produce cars within that particular nation that best suit the populace that they serve locally.

### 2b. Global Business Environment

The global business environment refers to the dynamic and complex set of external conditions and forces that affect how businesses operate on an international scale. These are business activities that occur worldwide. The trends we're seeing here are that emerging markets are getting huge, and this has allowed them to become much more powerful players on the world stage.

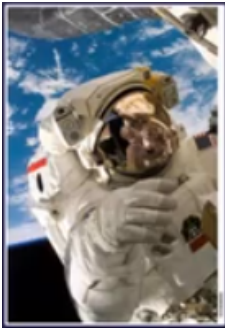


We are also seeing demographic shifts around the globe. As people become more mobile, less and less do they have to spend their entire lives in one country. It's simply as easy as getting on a plane, in some cases, and

going somewhere else. You also have a rising global middle class. More people have more wealth and disposable income that they can then use to purchase the products that are provided on a global scale.

## 2c. Technological Environment

Outside factors in technology are things that affect the business in a technological environment that are fundamentally changing the way business operates around the world. We are seeing an increased use of mobile technology that is really driving change within this particular environment. Places that recently never saw a line attached to a phone suddenly have access to smartphones and cellphones and can now communicate and see the world around them.



Social media, like Twitter and LinkedIn, is also driving a lot of business. Never before have we had access to so much information at literally the tips of our fingers.

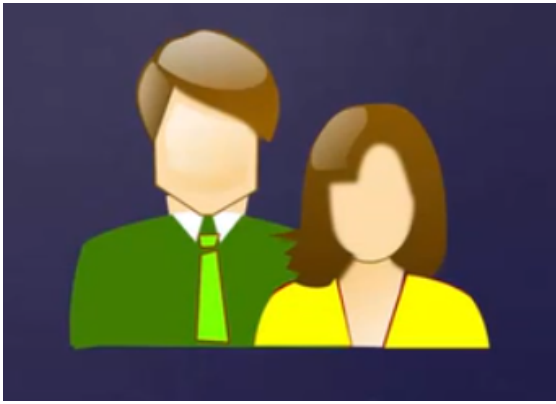
## 2d. Political-legal environment

The political-legal environment refers to governmental decisions that affect business operations. One of the trends we see here is more free trade between countries. Those old barriers and tariffs that dominated the political world are coming down, and as a result, businesses are better able to attract customers from different countries and better serve that growing global middle class that we talked about earlier.



## 2e. Sociocultural Environment

The sociocultural business environment encompasses various factors that influence a company's operations, including religion, language, education norms, social systems, and demographics. It can exist within one particular country or industry, or globally. In this lesson, we're going to take a look at it as it exists within a particular country, regarding the social and cultural practices and norms of a particular population.



In the U.S., one of the things we're seeing is worker mobility. Now, worker mobility has pluses and minuses. For instance, some of the pluses are that you have a more flexible workforce and it can be cheaper for companies, depending on how long they can keep them. However, some of the negatives are it's less stable, as the workers tend to go away; they also have less benefits for the workers in some occasions, depending on how much they move. It requires ongoing training from the companies involved.

## 2f. Economic Environment

These are economic factors that affect purchasing of goods and services, such as employment levels within a nation or gross national product or wealth, inflation, and interest rates--the monetary policy of a nation.

Again, we're going to look at those emerging markets as a trend. Emerging markets are becoming more powerful and having a greater say, not only in national wealth and inflation rates and exchange rates between nations, but also in how each nation interacts with each other on an economic scale. Nations who, at one time, had very little wealth are now enjoying vast opportunities for wealth and production.

⇒ **EXAMPLE** Places like China and India have a vast workforce, cheap labor, and they're able to attract more business and production from other countries.



### SUMMARY

Today we looked at the **external environments of business** and how businesses need to react to these in order to survive and thrive. We also learned about the **major types of external business environments**: the domestic business environment, global business environment, technological environment, political-legal environment, sociocultural environment, and economic environment. We've come to understand that each one is not independent from the other; they each affect how the others are going to evolve.

Good luck!

Source: ADAPTED FROM SOPHIA INSTRUCTOR JAMES HOWARD



## TERMS TO KNOW

### **External Environments of Business**

The conditions outside of a business that affects how it operates.