



RAMA UNIVERSITY

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FACULTY OF COMMERCE AND MANAGEMENT

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NAME OF FACULTY: DR. HUMAIRA FATIMA

LECTURE-12



NATURE OF INTERACTIONS BETWEEN BUSINESS SYSTEM AND ITS ENVIRONMENT

The nature of interactions between a business system and its environment can be understood by the types of exchanges between the business system and its environment:

- Exchange of Information
- Exchange of Resources
- Exchange of Influence and Power

1. Exchange of Information

A business organization scans the environmental variables and generates important information which it uses for planning, decision-making and control purposes. Generating information is an effective way of getting over the problems of uncertainty and complexity of the environment. The organization also engages in forecasting for making assumptions about the future environmental conditions.

Also, the business organization itself transmits information to several agencies either voluntarily, unintentionally, or legally. There may be a compulsory requirement of furnishing information to some parts of the environment such as government, law, suppliers, customers, etc.

Therefore, exchange of information is an important interface between a business and its environment.

2. Exchange of Resources

A business organization receives inputs such as finance, materials, manpower, equipment, etc., from the environment – both external and internal. Therefore, it interacts with its environment for obtaining these inputs. The firm competes with certain organizations and collaborates with others in order to ensure a consistent supply of inputs. It sustains itself by employing the inputs for producing an output of products or services.

A business organization is also dependent on the environment for the disposal of its output of products and services to a wide range of clients. The interaction process involves perceiving the needs of the environment and catering to them. An organization has to satisfy the expectations and demands of customers, employees, shareholders, suppliers, general public, etc.

3. Exchange of Influence and Power

Another area of the business system and environment interaction is in the exchange of power and influence. The environment holds considerable power over the organization by virtue of its control over the resources, information and other inputs. It offers various opportunities, incentives and rewards, but on the other hand, it also brings a set of constraints, threats and restrictions.

The control of Government over a company is an example of one the power relationship. Other environmental factors, both macro, and micro exert considerable influence over the structure and functioning as well as the planning and decision-making process of the organization. It follows that the dependence and influence between the business system and its environment are reciprocal to a very large extent.