- **Subject: Economics of the Institution**
- **Level: First Year Common Core in Economic Sciences**
- **Academic Year: 2023/2024**

- **The External Environment of Organizations**
- **Definition of the External Environment for Organizations**

To achieve success and prosperity, organizations must adapt to, exploit, and align with the forces in their external environments. Organizations are purposefully formed groups of people serving a goal through organized and coordinated objectives and plans. As such, organizations operate in diverse external environments and are internally structured to meet both external and internal requirements and opportunities. Different types of organizations include non-profit, for-profit, public, private, governmental, voluntary, family-owned and managed, and publicly traded on stock exchanges. Organizations are commonly referred to as corporations, companies, firms, institutions, agencies, associations, groups, unions, and conglomerates. While the type, size, scope, location, purpose, and mission of an organization all help define the external environment in which it operates, it must still meet the requirements and contingencies of that environment to survive and thrive.

The big picture of an organization's “external environment”, also referred to as the general environment, is a comprehensive concept encompassing all external factors and influences affecting business operations that the organization must respond to or address in order to maintain its operational flow.

The social, cultural, technological, economic, governmental, political environments, natural disasters, and human-caused problems affect industries and organizations. For example, economic environmental forces generally include elements in the economy such as exchange rates, wages, employment statistics, and related factors like inflation, recession, and other shocks - both negative and positive. Employment, unemployment, employee benefits, and factors affecting organizational operating costs, revenues, and profits are influenced by global, national, regional, and local economies. Other factors that interact with economic forces include politics, government policies, international wars, natural disasters, technological inventions, and social and cultural forces. It is important to consider these dimensions when studying organizations because many, if not most or all, of the changes affecting organizations arise from one or more of these sources - many of which are interrelated.

- **Elements of the External Environment**

The external dimensions that affect and are affected by corporate governance can form opportunities if organizations properly adapt their internal factors to keep pace with these changes, or form threats if not properly exploited. These dimensions are summarized as follows:

1. Political and Legal Variables:

A set of forces that define authority, create constraints, and maintain laws and legislation. The most important variables include environmental protection laws, tax laws, e-commerce legislation, foreign investments, labor laws, international accounting and regulatory standards, and government stability. Organizations sense the government's influence through regulations and laws specific to their legitimacy and daily operations. Administrators, when defining their strategies, must take into consideration these variables and any potential future changes in state legislation and laws.

2. Economic Variables:

The importance of following sound corporate governance rules is growing to achieve the following:

- Ensuring an adequate level of reassurance for investors and shareholders to achieve an appropriate return on their investments while working to preserve their rights, especially minority rights.

- Maximizing the value of organizational shares and strengthening their competitiveness in global capital markets, especially in light of the introduction of new financial tools and mechanisms and the occurrence of mergers.

- Ensuring the efficiency of implementing privatization programs and properly directing their proceeds to optimal use, preventing any associated corruption cases.

- Providing local or global funding sources for organizations through the banking system or capital markets, especially given the increasing speed of capital flow movements.

- Avoiding slipping into accounting and financial problems, thus supporting and stabilizing the activity of organizations operating in the economy, preventing collapses in banking systems or capital markets, and helping to achieve development and economic stability.

Economic variables refer to the characteristics and trends of the economic system in which the organization operates, which influences the design and formulation of its strategies. These economic factors include: economic growth rate, structure of domestic and foreign investments, interest rates, money supply, inflation rates, and unemployment levels.

Corporate governance contributes to achieving economic development and avoiding financial crises by establishing a set of performance standards to strengthen economic foundations in markets, exposing cases of manipulation, corruption, and mismanagement in a way that leads to gaining the confidence of market participants and working towards their stability and limiting severe fluctuations.

3. Social and Cultural Variables

Organizations affect and are affected by the general life of society members, and their performance can impact jobs, savings, living standards, and other matters related to the lives of individuals and organizations in society. Consequently, organizations are held accountable for their commitment to the broader framework of societal welfare and progress.

Social and cultural variables are represented by values, customs, and traditions in society. Examples include changes in lifestyle patterns, population growth rates, culture, learning, and education. The impact of these variables is evident in the human resources that the organization obtains from society, its marketing capability, and the functions it can perform. This influence takes the form of opportunities and threats.

4. Technological Variables

Technological development, through its variables, is one of the most important challenges facing organizations. The future and development of organizations depend on recognizing these challenges, which are evident in operational processes. Examples of these variables include: total expenditure on research and development, protection of inventions, new products, and productivity improvements.