

The external environment factor



Firstly, political factor refers to how and to what degree a government intervenes in the economy. It mostly includes government legislation that forcing businesses to comply. For example, tax policy, tariffs, labor law, trade restrictions, environmental law and political stability. There are several political factors that can affect Royal Dutch Shell Company Plc, which is also known with the name of Shell. The first political factor is political stability. Malaysia practises Parliamentary Democracy with a constitutional monarch. Malaysia is a country with high political stability. This has a great impact on Shell as many foreign investors are willing to invest in Shell because of the political stability. The second political factor is tax policy and trade and tariffs control. Malaysia government has introduced new tax and investment incentives in year 2010 in order to promote oil and natural gas exploration. This policy can affect Shell because Shell only need to pay a lesser amount of tax to government and thus reduce the cost of Shell. The last factor is the policies of government on Shell oil. Malaysia government offered subsidies to all companies in the field of petroleum and energy industry. As a result, Shell can reduce its operating cost.

Secondly, economical factor refer to economic growth, interest rate, exchange rate, unemployment rate and inflation rate that can affect the performance of the organization. The first economical factor that can influence Shell is economic growth of Malaysia. According Malaysia Markets leader Azwan Baharuddin (2013, Feb 16), Malaysia has performed well in 2012, with Ernst & Young envisaging full-year growth of 5. 1%, up from 4. 5% initially forecasted. This causes an increase in investment and consumer spending. Therefore, the revenue of Shell will increase as well. The second

economical factor is inflation rate. According to Department of Statistic Malaysia (2013), the inflation rate in Malaysia was at 1.30 percent in December of 2012. Low inflation rate allow Shell better able to make long range plans because Shell knows that the money is not losing its purchasing power year after year. The last economical factor is unemployment rate and labor supply. According to Department of Statistic Malaysia (2013), the unemployment rate in Malaysia has decreased from 3.20 percent in October of 2012 to 2.90 percent in November of 2012. The decrease in unemployment rate means the economy of Malaysia is doing well because there is demand for labor. However, in times of low unemployment, workers have more power to demand higher wages because they know they cannot be easily replaced. This is not good for Shell as it may need to increase the wages of its workers in order to retain them.

Thirdly, social factor refers to demographic and culture aspects of the external environments which include beliefs and values, attitudes and opinions, and lifestyle. These factors can affect customer needs as well as the size of potential market. The first social factor is trends in Malaysia population. This trend can affect the demand for a company's product and how that company operates. According to National Population and Family Development Board (LPPKN) Director-General Datuk Aminah Abdul Rahman (2011), Malaysia will reach the status of an ageing nation by 2030, when those aged 60 and above makes up 15 per cent of the population. An ageing population may result in a smaller and less willing workforce. Therefore, the cost of labor of Shell may increase. Shell also needs to change its management strategies in order to adapt to these social trends. Educational

level of Malaysia citizen is also a social factor. Only 25% of Malaysia's workforce is composed of highly skilled workers, and the percentage of our population with tertiary education is also lower than other advanced developing countries. (Jamal A., 2011, March 27). Therefore, Shell may face difficulty when searching for highly skilled workers to work for them.

Fourthly, technological factor refers to automation, R&D activity, technology change and the rate of technological incentives. It can influence outsourcing decisions, determine barriers to entry, and the minimum efficient production level. The first technological factor is the impact of emerging technology.

Malaysia's technology level allows Shell to offer diesel subsidy cards for customers who are eligible for the Governments Diesel Subsidy Programme. This allows customers of Shell to purchase the diesel at a reduced price in a convenience way. The second technological factor is the impact of Internet. As Internet has become very common in Malaysia society, Shell can use internet to stay contact with its headquarter office in Netherlands as well as other Shell branches within or outside the country. This allows Shell to exchange information frequently and effectively and the decisions made by the top management can be deliver well to all the workers.

Lastly, ecological factor refers to the relationships among human beings and other living things and the air, soil, and water that support them. Shell products can have a negative impact to the environment. Firstly, combustion of petroleum will cause acid rain. Acid rain can cause various types of environmental problems such as dead trees, dead coral reefs and acidified lakes. Besides that, burning a large amount of petroleum can create large

amounts of carbon dioxide gas. Carbon dioxide gas will trap heat in the earth's atmosphere and thus cause the green house effect.