

Changes in the business environment of shell and subsequent strategy



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The main objective of this assignment deals with business environmental changes of “ Shell Company” (Petroleum Company) from last 5 years.

PESTEL analysis was applied in the following assignment, in order to present Shell Company’s present status in all aspects and the changes that have taken place in the company. Moreover, the various types of strategies formulated were outlined and discussed.

Introduction

An organization is an entity that provides goods and services to consumers who need or want them and it does not function in isolation. Therefore, it is imperative to identify and understand all the factors within its environment that could potentially affect it. The environment of a business is normally divided into two categories, the micro environment and the macro environment. Below we shall discuss in details what each category means.

Micro-environment:

Internal factors like suppliers, competitors and employees are volatile and influence transformation of a business process and often it leads to undermining the current balance within the system.

Suppliers: A supply chain is a system of organizations, people, technology, activities, information and resources involved in moving a product or service from supplier to customer.

[www. overstockuniverse. com](http://www.overstockuniverse.com)

http://upload.wikimedia.org/wikipedia/commons/thumb/2/23/A_company%27s_supply_chain_%28en%29.png/300px-A_company%27s_supply_chain_%28en%29.png

Company should have a social responsibility towards their suppliers, as they transform the natural resources and raw materials into finished goods which are delivered to the end consumers. They also play a vital role during product shortage. They are the combination of all types of business practice and ethics.

www.overstockuniverse.com

Customers: A Client, buyer or purchaser, is usually used to refer to a current or potential buyer or user of the products of an individual or organization, called the supplier, seller, or vendor. Slogans for the Customer: “ the customer is king” or “ the customer is god” or “ the customer is always right.

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Competitors: Competition is a contest between individuals, groups, nations, etc. for territory, a niche, or a location of resources. Competition arises whenever two or more parties strive for a goal which cannot be shared. Humans compete for wealth, prestige, and fame so that they met deep rivalries often arises over the pursuit of. Business is often associated with competition as most companies are in competition with at least one other firm over the same group of customers.

Macro-environment:

Decision making by managers are influenced by many factors that constitutes the macro environment in a business. The examples for the macro environment are Tax changes, trade barriers, demographic change and government policy changes.

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The following factors are:

Political factors: Political environment is an unpredictable element which effect specific organizations badly due to instability in government and rules passed by the political parties.

Factors like political stability in the country, party in power, ideology of government and foreign policy greatly influence the business in political environment of the country.

Example: Indian Government restricted coca-cola sales during late seventies following policy of restricting the growth of multinationals in Indian markets.

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But coca-cola was allowed after some years under the New Industrial policy of 1991. Under this new policy, government liberalized licensing, imports and exports, inflow of foreign capital and technology on more liberal terms.

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Economic forces: Interest rates, taxation changes, economic growth, inflation and exchange rates are all comes under economic forces. “ Foundations of Economics” book economic change is a major impact on a firm’s behavior. Some of the examples are it has been difficult to export due to higher cost of raising finances, strong domestic currency makes it difficult to compete with that foreign prices.

Social/cultural: The availability and willingness to work, and the demand of a product has lot to do with the social trends around which the firm is operating in. Cultures and attitudes towards work are varied from country to country. A firm may forced to wind up operation if it hurts intentionally or unintentionally the religious belief of a religion.

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Especially in Indian culture eating beef is against the religion they are e. g. When McDonalds opened their chain of restaurants in India; they were opposed by religious activists as McDonalds were serving beef in their menu which forced McDonalds to change their menu.

Technological factors: Technology makes the human life simple; by using technology we can create new products and new services in the market like <https://assignbuster.com/changes-in-the-business-environment-of-shell-and-subsequent-strategy/>

usage of Internet for online banking transactions and upgrade the old products. Technology helps firms to store customer data to their data base by using different data base tools like IBM data base software tool which helps for top brand companies to track their privileged customers and simultaneously it provides lot of employment opportunities for service based IT companies. http://www.oup.com/uk/orc/bin/9780199296378/01student/additional/page_12.htm

Example: Few years back in India people were going to ICICI bank and had to fill the deposit form and they have to stand in line to deposit amount (it's a time consuming process) but after up gradation of technology in ICICI everything changed no need of standing in line to deposit the amount, just deposit the amount directly in to automated teller machine and enter account number details.

Environmental factors: It includes both weather and climatic change. Change in climatic conditions affects the farming and tourism industries directly.

These climatic changes are mainly due to global warming . Firms should aware on environment changes , in fact people from different parts of the world are aware of the fact how important to preserve our planet and they shows more interest to minimize wastes and maintain healthy and hygienic environment. http://www.oup.com/uk/orc/bin/9780199296378/01student/additional/page_12.htm

Example: Especially London government takes lot of care to maintain healthy and hygienic environment by creating recyclable products, using recycled materials and sustainable timber, minimize packaging, buying locally to save

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fuel costs, creating an efficient distribution network, working with suppliers and distributors who take steps to minimize environmental risk.

Case Study

The ' Royal Dutch Company was established in the year 1890 in the Netherlands, East Indies' and after some years it abbreviated as Royal Dutch Petroleum Company in the year 1949. " Shell is a global group of energy and petrochemical companies. Its headquarters is located at Hague, Netherlands. Royal Dutch Shell plc is the parent company of the shell group, which is incorporated in England and Wales"(www. shell. com). Shell is responsible for Manufacturing, Selling and distributing of oil products across the globe and is positioned as a global leader in oil and gas industry. Shell helps in meeting global energy demand economically, environmentally and socially responsible ways.

www. shell. com

Challenges that Shell has dealt with the last 5 years

Political factor is one of the important factor which affect all types of business directly and indirectly because so many political party people keep on changing the rules and regulations, instability in the political power and the price of oil keeps on increasing its a major threat for oil and gas companies with international operations.

The following are the political changes and threats which are faced by the shell in the last 5 years:

Majority of shells operations is in Nigeria. Due to militant activities in Nigeria Shell is facing lot of political issues, which resulted in closure of 4 production facilities for the safety of their employees which resulted in loss of production by 400, 000 BPD. In June 2008 there was a militant attack and Shell had to close their operations in Bonga field which resulted in reduction of production by 225, 000 BPD. Shell has shutdown his Soku gas plant in Nigeria in November 2008 because thieves have damaged the gas pipelines at the Soku plant. Due to rise of illegal activities Shell was forced shut down of the gas plant which produced 40 percent of Liquefied Natural Gas (LNG) for Nigeria and produced 10 percent LNG throughout the world.

Shell published a warning to Nigerian government in the year 2009 as it helps by giving support to the local forces to lower the gas and oil prices. Shell lent \$1. 69 billion to the Nigerian government to solve the debts for the covered cost on gas project from 2009-2011. The source of income for shell investments in the Nigeria delta region depended on capability of controlling the violence by the Nigerian government in the delta region. Due to the continuous violence and explosions, Shell had to shutdown their pipe lines which were damaged.

In 2009 5 theft incidents were reported, they siphoned oil from oil wells in Niger delta, even fire incidents were also reported but production was not effected as those oil fields were already closed due to lack of security in that area. 100, 000 barrels of crude used to get stolen almost every day which means that is equal to 5% of Shell's production in Nigeria. Increase in violence lead to decline of oil production by 20%.

Shell faced the problems with both the Nigeria and Iraq governments . Especially in the case of Iraq government said that they were not in a position of consuming or exporting the gas which lost \$40 million in day but shell tried to change this, due to the Iraq war led to terror attacks and instability in the government. Even though Shell settled a deal with Iraq government in oil production share and owned 49% of its venture to obtain the natural gas during the production of oil. Even now also shell operating the same venture even it is dominating by the sectary violence.

Technology is most powerful factor for any manufacturing and oil based companies to stabilize their products in the market and to compete with other company products. In fact many companies must maintain good relationship with the customers to know the basic needs of the customers and be proactive to volatile behaviour of customer which is at times caused by introduction of new technology and its market impact.

The Technology used by shell is “ in situ” process which is very expensive and environmentally troublesome mining operation and would create thousands of tons of waste in the form of spent shale, as the mining method does and process is complicated due to the usage of this process it prevents groundwater from flowing into production area and this leads to raising pollution and scatters the more heat in the underground. After some years around 2008 Shell start using advanced EP technology not only helps to reduce the cost on oil goods and services by producing maximum quality at the same time it shows that how an organisation can take advantage of new technology by creating innovative products. Shell not only using EP

technology but also using three other more technologies to minimize the global warming effect on the environment even though it is inevitable.

http://www.isa.org/InTechTemplate.cfm?Section=Automation_Update1&template=/ContentManagement/ContentDisplay.cfm&ContentID=72109

Out of those GTL (Gas to Liquid: produced a clean burning fuel from natural gas) is one of the best technology which is used by the shell to minimize the emission of gases. GTL technology had create a lot of demand in 2006 due to increase in transport in the world, pollution norms were becoming stricter and stricter and it demanded for clean burning transport fuel, this forced Shell to introduce GTL technology. With the use of this technology Audi's diesel car became the first car to win the Le Mans 24 hour race. GTL technology was also successfully tested in buses and taxi fleets in highly polluted cities. Introduction of this GTL technology will increase in the air quality we breathe.

<http://www.faoi.shell.com/2008/reviewoftheyear/technology/downstreamtechnology.html>

<http://www.faoi.shell.com/2008/alternativeenergy/biofuels.html>

Social factors: Shell uses different strategies to maintain healthy relationship with industry experts as well as focus on its people. Company wants to maintain a good relationship with the society to improve goodwill of the company. According to Haney, Shell has been working with other companies

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and institutions to improve the competitiveness of local industry and develop more competition in Brazil, which will bring more jobs to the country. The pressing challenge is recruiting talented people and Shell has been successful in this, as the industry is still attractive to new graduates worldwide. " Finding experienced people is a challenge," Haney says. " We have a mix of expats here who volunteered to fill these gaps. That's primarily on the technical side." Shell does employ local Brazilians to staff its finance, legal and external Affairs departments among others.

Shell attracts their local people by providing transport fuel to around 10 million customers each day through our 44, 000 service stations worldwide.

Environmental factors: This is the main factor which is faced by the shell at present environment.

Environmental Challenges and problems faced by company:

In 2006 Shell faced an environmental challenge which caused environmental damage and also financial damage to the company. This happened due to negligence by a contractor who forgot to tighten the bolts of oil supply pipe. Oil which was supposed to be in harbor containment system was leaked through pipeline, this wasn't discovered until oil started floating in water, though the refinery employees started taking action to stop the oil leak already much of damage was done to hull of 75 boats. The California Department fish and Game's of spill prevention and Response team investigated the cause of oil leak and they also claimed that it didn't cause any damage to sea life. Shell worked with US Coast guard and cleaned the

entire oil spill. Shell had paid 300, 000 pounds as fine for the negligence of their contractor.

<http://www.corpwatch.org/article.php?id=15202>

A detailed study by PFC (Trusted advisor for energy companies and government) showed that Shell's carbon emissions was relatively higher than other oil companies, its report showed that it ranked high in carbon emission. This report was published in their annual report and was publicly available and which made stakeholders think about the company's performance and its position in the competitive market.

Emissions disclosure study puts Shell bottom of the big oil class

In 2010 Shell refineries reach Clean Air Act settlements; Shell companies are agreed to 6 million dollars for installing pollution reduction equipment at two oil refineries under clean Air Act settlement with the federal government to reduce harmful emissions. Shell Chemical LP and chemical Yabuco, units of Royal Dutch Shell PLC had installed new pollution control equipment at shell oil refineries. This settlement was announced by the Justice Department and the Environmental Protection Agency.

<http://royaldutchshellplc.com/2010/03/31/3-3-million-penalty-imposed-on-shell-for-clean-air-act-violations/>

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Conclusions:

In this report we discussed some challenges faced by Shell these include Political, Social, Environmental, and Technological among others and how Shell dealt took pre-emptive actions. Shell has faced many penalty and criticism from various governments regarding various Shells' activities including Extraction, Processing, Production, Handling, transportation, storage of hazardous petroleum and chemical products.

Shell has been constantly working on technological advancements to reduce carbon emission to the environment; Shell came up with innovations that help produce more eco-friendly environment. One such example is GTL Technology- Producing clean burning fuel from natural gas which greatly reduces the emissions of the pollutant gases and hydrocarbon in the air. Shell is working towards CSR to build relationships with the society its running its business in. Attracting talent industry experts, and encouraging local talent to join forces and providing employment to the local community.

Recommendations:

Due to negligence of an employee Shell had to pay huge amount in the form of fine this shows that they need to conduct frequent training on risk associated to safety, training on new technology when any up gradation is taking place. Give a brief idea of what climate risk is. Shell also needs to some in depth risk analysis before starting a new project in demographic location. They need to work more on Marine safety and hygiene near their oil fields.