

# Pestel analysis of indian business environment economics essay



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Starting and developing a successful business does not only pose as an adventure but also a very big challenge. A favorable business environment is imperative for entrepreneurs to create and sustain profitable businesses. A number of factors are considered very instrumental in facilitating entrepreneurs to create successful ventures. For instance, there is need to facilitate easy access to capital, clarification of legislations, development of the culture of entrepreneurship, as well as development of crucial business support networks (Murthy 2000). Moreover, creation of a favorable business environment implies more than facilitating growth; it entails making a region, say India, more advantageous for trade and investment as well as work. In the recent past, emphasis on Corporate Social Responsibility has turned around the image and acceptability of many Indian companies for the best.

The massive Indian country is widely known as a leader in cultural diversity. The country is surrounded by the Indian Ocean, Arabian Sea and the Bay of Bengal; making India a peninsular. The north of India is the home to Himalayas Mountain; the world's highest. India is also a neighbor to countries such as Bangladesh, Pakistan, Sri Lanka, Tibet and China. Having

attained its independence in 1947, India is among the leading democratic countries of the world. In spite of there being 26 states as well as seven union territories, India still boasts of diversity unity. Moreover, the presence of diverse religions, cultures and languages in India, unity is still maintained in the country. India has been experiencing an unprecedented growth of GDP for the past decade (Murthy 2000). Additionally, there has been a continuous growth of liberalization as from 1991 to date. Furthermore, the country has been increasingly opening its business environment to foreign companies as well investors. The country has put in place measures aimed at improving the environment for business to thrive. Consequently, the Indian business environment has gained the competitiveness crucial to survive in today's business world. To gain a detailed understanding of India's business environment it is important to analyze it through application of parameters such as PASTEL and SWOT analysis.

## **PESTEL analysis of Indian business environment**

The PESTEL analysis of a business macro-environment entails the consideration of diverse factors which include Political, Economic, Social, Technological, Environmental and Legal factors. The decisions made by business managers are immensely affected by the above factors either directly or indirectly. The relevance of PESTEL analysis is business cannot be overemphasized. In fact, the very design of PESTEL analysis was solely for the purpose of scanning the business environment. PESTEL actually analyses the all the external factors of the environment within which a business exists (Murthy 2000). As a matter of fact, the factors addressed in PESTEL analysis are often out of a business' control and it is crucial for the business to be

aware of them before undertaking any plan to commence its operations or make a decision to expand operations. Moreover, the very continued existence of the business is dependent on the factors addressed through PESTEL analysis. Before the business undertakes product development, change of strategy or change of the entire business model, it is very crucial to put into serious consideration the factors addressed in PESTEL analysis.

Political factors relate to the policies made by the government for instance the extent to which the government intervenes in the economy. It also relates to the goods or services that a government is willing to provide in the country. In addition, political factors involve the question of government's view and attitude towards provision of subsidies as well as government priorities towards support of business (Chakranarayan 2009). Political decisions have widespread implications on the business sector of a country. For instance, they impact on workforce education, nation's health as well as the infrastructural quality of a nation. Being one of the world's largest democracies, India has a federal form of government. The Indian federal government is based on the Common law of English, review of legislative acts by the judiciary, maintenance of reservations on the acceptance of compulsory jurisdiction, application of different personal legal codes on Christians, Hindus and Muslims. Indian's political can be described as averaged stable. From India's history, Indian National Congress (INC) has steered the federal government for a long time. However, several parties have dominated Indian state politics.

The political environment of India is highly determined by diverse factors such as political stability and government's policies, the ideologies of various

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political parties, politicians' interests, as well as the influence political forums possess. Therefore, multivariate political factors affect the Indian business environment (Chakranarayan 2009). They include taxation which is well developed due to its three-tier structure of governments: Union, state and Urban & Rural bodies. The Union government imposes income tax, custom duty as well as excise, sales and service tax. The state government levies principal taxes including stamp duty, land revenue, state excise, entertainment duty and professional and callings tax. Various taxes such as octroi, properties, markets as well as utilities are charged by the local bodies. Politics also influence privatization as interference politically is reduced hence efficiency. In addition, the government encourages free business. There are flexible regulations on international trade; the government has been stable for the past 10 years and India has not had external wars.

Since the announcement industrial reform policies in 1991, India's economy has been considerably stable. For instance, there was massive reduction to 6 on industrial compulsory licensing, divestment on crowded public sector enterprises, liberalization of foreign capital, granting of permission on foreign technological agreements, and the formation of FIBP (Foreign Investment Promotion Board) (Chakranarayan 2009). Thus there has been a continuous improvement of Indian economic factors. For instance, the year 2009 saw the country register a GDP of U. S\$3. 965 trillion, growth of 6%. Similarly, there was an impressive growth of direct foreign investment for the same year 2009 to U. S\$10. 532 billion. Thus Indian economy demonstrates its stability through its ability to brush off the global economic re-adjustments.

Social factors such as changes in trends have profound impacts on a business environment. For instance, India's ageing population has seen a rise in pension costs to firms as well as increased recruitment of older workers. Being the world's second highly populated nation, India's population is estimated at 1.1 billion. This is into various structures with different percentages: at 31.8% is 0-14 years, 63.1% is 14-64 years and at 5.1% are those over 65 years. These structures possess varying mobility, work attitudes and leisure, education and level of skills, demographics of population, income distribution as well as working conditions.

Technological factors influence new product development as well as invention of fresh processes. Technological has great impacts on cost reduction, quality, as well as innovation. India is now served with the 3G technology steered by the installation of optic fibre cable. This has facilitated innumerable projects in technology. Moreover, India boasts of a strong IT sector as well as being a very strong market for mobile and communication provision. There is a continuous IT development, funding of technology by the government, software upgrade, as well as technological transfer (Chakranarayan 2009).

Significant legal changes have been established in India in the recent past. For instance, legislations on disability discrimination, emphasis on recycling as well as minimum wage increase have directly affected businesses. Past legislations also affect businesses directly such as the 1969 Act on trade mark, the 1955 Act on essential commodities, the 1969 Act on weights, standards and measures as well as the consumer protection Act of 1969. In addition, there are several forms of legislations applied in Indian business <https://assignbuster.com/pestel-analysis-of-indian-business-environment-economics-essay/>

environment such as licensing, copyrights as well as legislations on employment, product and trade restrictions, safety and health regulations, as well as compliance to EU laws and commission on monopolies. On environment, Indian business sector and government understands the impacts environmental factors such climate and weather can have. In India, the quality of air has been affected by urbanization and industrialization. Several problems have also been associated with environmental degradation in India such as pollution and premature deaths (Chakranarayan 2009). This has led to the establishment of noise controls, pressure groups on environmentalism as well as regulations on waste disposal.

### **SWOT analysis of India's business environment**

The complex as well as unique system of India possesses diverse strengths, weaknesses, opportunities and threats in almost an equal measure. There are various strengths associated with India's system as a whole. In fact, it is impossible to exhaust the strengths of the Indian system. To start with, the high population provides a large pool of young and old highly skilled labor force that is not only dynamic but also capable. Moreover, Indian students do not only speak English but also possess analytical skills. In addition, India is home to diverse world class professionals such as scientists, engineers, doctors, spiritual leaders, professors, managers, and many more. India is also endowed with natural resources (Indian Institute of Public Administration 2009). Furthermore, India has strong religious foundation. The current shift of world market towards the Asian continent has favored India geographically. The level of democracy has favored free media and led to

creation of a big market. Another important factor is the fact that India is a software and IT hub.

There are various weaknesses associated with the Indian business environment. Some of the weaknesses include unavailability of adequately trained workforce to meet the level of demand, absence of entrepreneurship, good leadership and patriotism, absence of leadership responsibility, trust and transparency, absence of models of Indian management, similarly, India lacks habits towards learning and teamwork creation, fear of taking risks, absence of impetus to technology, absence quality awareness, blind obedience to elders' teachings as well as absence of development spiritually and emotionally (Indian Institute of Public Administration 2009). On the other hand, several threats are found in the Indian business environment. For instance, there is a general anxiety and fear of instability in the government, presence of egocentric political leadership, and presence of corrupt and very slow judiciary, presence very high competitive forces in the market, there are imbalances in diversity, India has a caste system thus regional and religious conflicts, moreover, absence of job creation mindset and embrace of job seeking is a major threat, similarly, most Indians have a mindset of being excessively rich and powerful thus pursuit of personal as opposed to national development.

In spite of the many weaknesses and threats of Indian business environment, there are various opportunities available. Firstly, India provides a large unexploited market for products and services such as education. Secondly, India is signatory to various agreements on trade thus making it a good trade destination. Thirdly, India has many opportunities for research and <https://assignbuster.com/pestel-analysis-of-indian-business-environment-economics-essay/>



development. Fourthly, there is potential of generating intellectual property in India. Moreover, the Indian economy has a potential for rural and social system (PURA) to facilitate transformation (Indian Institute of Public Administration 2009). Similarly, there are various opportunities for counselors as well as advisors to students in business issues. Additionally, the tourism industry in India is yet to be exploited to the maximum thus creating a very potentially lucrative sector. India is not yet up to par with modern infrastructure, thus there is a high potential for investment in modern infrastructure.

## **Conclusion**

From the foregoing, it is evident that India has a favorable business environment. Investors from all over the world can invest in profitable ventures in India. The PESTEL analysis of India reveals that the country has a high potential to sustain profitable business ventures. In spite of there being various weaknesses and threats of businesses in India, there are innumerable strengths and opportunities for people to exploit in India.