

# Pros and cons of pestle analysis



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**INTRODUCTORY REVIEW:**

When it comes to influence the things on the business, than an enormous number of things appears to force the environment of an organization. The influence either may be economical or Political. Companies usually do PESTLE analysis to analyze themselves, economically and politically. It has been observed that a number of people still unaware with the pros and cons of such analysis and its attributes. In order to educate my readers pertinently, I intend to describe the PESTLE analysis in details first and then elaborate the economical factors which constrains the organization to loose their momentum and productivity. We will first determine the different significant factors of economics and then analyze our chosen company “ROYAL DUTCH SHELL COMPANY OF INDIA” through the PESTLE analysis model.

**AN OVERVIEW OF THE PEST ANALYSIS:**

Financial analysis and SWOT analysis are some of the credible tools indeed to analyze the financial health of a company, but factually speaking, there are a number of problems and issues, apart from the financial numbers which probably deplete the efficiency of the organization. PESTLE analysis is one of those analyses, which analyze the company in different aspects and excrete out a meaningful result for the management to take beneficial actions.

The acronym of PESTLE analysis is Political, Economical, Social, Technological, Legal and Environmental analysis of the organization. The analyst analyzes the company through these four aspects and compares the result with its competitors which ultimately help them to overcome on the <https://assignbuster.com/pros-and-cons-of-pestle-analysis/>

loopholes in an instant and provides the company a definite edge over its competitors (Ruberson, 1999). It is appropriate that if we specifically describe each section in details, like to recognize what factors may influence the organization under the umbrella of political, environmental, social and technological subjects.

Political factors include the government prudential regulations and other legal issues prevailing in the country, which intentionally or unintentionally, formally or informally an organization have to implement to operate with their full capacity. Tax policy, environmental regulations, employment laws, trade restrictions and tariffs, political stability and law and order situation in the country are all comes under the umbrella of the Politics. While the factors like economic growth, interest, exchange and discount rates in the country are categorized under the economic factors (Fitzhugh, 2005). The third category is for the social factors which include the demographic and cultural aspects of the external macroenvironment. Some social factors are, Health consciousness, age distributions, safety emphasize and population growth rate. By contrast of all this technological factors are to match the productivity with in the same industry. Research & Development (R&D) activities, automation, rate of technology change and technology incentives are the some prominent examples of the technological factors which eventually effect the bottom line of an organization either positively or adversely (Ruberson, 1999).

I think I justified with the elaboration to give my readers a very good idea regarding the analysis process.

**ECONOMICAL FACTORS:**

The thing which merely effect on the productivity of an organization is economical factors. There can be numerous economical factors which ultimately condense the growth potential of an entity. Mentioned below are the some economical factors which may effect adversely on an international business, let's having a glance over them and then we will reckon by implies the same on our chosen company.

- Deflation
- Fiscal policy
- Rate of interest
- Employment rate
- Global Trade.
- Price Trend or Inflation Rate

**DEFLATION:**

When a decrease in the prices of the commodities and goods occur then we can say that deflation is incurred in the economy. Deflation urges the prices of the commodities to fall below zero percent which increases the real value of money; On the contrary inflation decreases the real value of money. Let's say that the commodity's price are consistently declining and reaches below zero percent then consumers intend to delay purchases and consumptions until price falls further, which results in the overall economy to show a catastrophe declining graph. Usually economists link depression with recessions and depressions. We have an example of depression, which occurred in the entire world after the World War II which is known as the worst depression ever envisaged.

**FISCAL POLICY:**

If the tax policy of the government is directed towards tax oriented having impact as well as incidence on the same person, his propensity to consume will be low because his purchasing power has been taken back by the government. The two main components of fiscal policy are spending and taxation. Government spending and slabs of taxation can impact on the aggregate demand, resource allocation and distribution of income in the country. Government usually has taken such actions in fiscal policy which ultimately overcome on the fiscal deficit and trade deficit issues, which are some of the major foes for an economy.

**RATE OF INTEREST:**

As a consequence of increase in the rate of interest, the propensity to consume will condense because the people intend to save rather than to consume. In order to enhance the moral of the borrowers the Government, usually central bank is governed to hike or shrink the rate of interest and discount rate. Keynes theory describe the thing in a proper fashion, according to him people hoard the money when they lose their confidence from the economy due to any cause like high interest rate or the fear of inflation, which exacerbate a country miserably.

**EMPLOYEMENT RATE:**

Employment rate shows that how much people out of 100 are employed and how much are not. Increasing employment rate is a green signal for the economy and proves to be a vital lever for the country. Suppose a country's employment rate is 60%. This result manifest that 60 persons out of 100 are

employed in the country and they have the consumption power and the more the consumptions the more leaves a positive impact on the economy of the country.

### **GLOBAL TRADE:**

The exchange of capital goods and services across international territories is referred as global trade. The economic, social and political importance has been on the rise from past few decades. Domestic trades occur within the country while international trades occur outside the country or across a cross border. Recession is experiencing a global meltdown in international trade these days. Government seems eager to enhance this act because, the global trade is the best tool to welcome the foreign reserves in the country.

### **PRICE TREND:**

As we are all aware with the fact that every person has a different purchasing power and this concept also varies from country to country depending upon the country's financial stability. Let us suppose that if the prices are expected to increase in future, the people will increase their purchasing in present than in future. On the contrary, if the prices are expected to fall in future, purchasing of present will be postponed for a future date because they will be more willing to purchase in present than in future. Condensing the price on the products definitely induces the consumers to consume more rather than to save, which helps the money to roll over and will leave a positive impact on the country's economy.

Let's start our PESTLE analysis on the Royal Dutch Shell Company of India, but before that I want to write few lines regarding the company and its operations in the country.

### **AN OVERVIEW OF ROYAL DUTCH SHELL COMPANY OF INDIA:**

Royal Dutch Shell Company Plc, previously known with the name of Shell is a multinational company of Dutch which has the reward of not only the biggest petroleum country of the world but also listed as the world's largest corporation of 2009. The company has its headquarter in Netherlands with registered office in London. The company enjoyed a huge net profit of over \$26. 277 billion in the year 2008. Shell has the largest network as compared with the other companies and currently it is operated in more than 90 countries of the world.

The company carried its same earning momentum in almost every country, as it currently doing in India. Royal Dutch Shell is the largest and most diversified investor in the energy sectors of India and it already invested above \$1 billion in that particular sector to make the sector strong enough to tackle with the energy crisis. Fuel retail license is one of the major requirements, which must be complied appropriately in order to run the petroleum business smoothly within the country and as per the jurisdiction of the law. In India Shell, is the only company which has a valid fuel retail license (Annual Report, Shell). Shell India has been engaged in diversified business, beside from the private sector supplier of crude, products, chemicals and technologies to private/public sector oil companies, the company also has a key interest in bitumen, lubricants and LPG receiving and regasification. The company is currently enrolled with different

communities like NGOs and other public institutions and enjoying massive profit taking years by year and eventually becomes an asset for the country by contributing a large size of revenues. A lot of factors influenced on the productivity of the company from last few years. Which we will discuss in our PESTLE analysis.

### **PESTLE ANALYSIS OF SHELL COMPANY IN INDIA:**

As we have discussed earlier that, we analyzed the organization in different broader aspects of Political, Economical, Social, Technological, in the PESTLE analysis, lets discusses each factor in details and excrete out a meaningful result from our analysis.

#### **(P)OLITICAL ISSUES WITH THE COMPANY:**

The world largest democracy element allegedly found in India, with over 900 million people living in an area, which is less than one third of the size of the United States (US). Poor law and order situation, instability of politics and blood shaded violence threatening the entire world especially the core of the business in the country. India's social and economic circumstances parallel its political condition. It can be say that the political situation of the country is so vulnerable because a big amount of people living in the abject poverty.

Recent assault on the Mumbai hotel is one of the biggest examples of political issues. Apart from that a number of times it happened that, whenever a political leader has been killed than their adherents totally destroyed the country with ablaze the vehicles and most wretchedly the situation for the fuel stations. From past few years over 400 fuel pumps pf Shell had been burned out in these types of situations, which resultantly left an adverse effect on the company's bottom line and also on the minds of

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foreign investors. Shell company in India has to come up stringently and fragility to overwhelmed this matter, by submitting a petition in the jurisdiction of the courts regarding the safety issues.

### **(E)CONOMICAL ISSUES WITH THE COMPANY:**

No doubt that India revamps their industries and economy a lot as compared with other economies, especially in Asia but there are some scarcities still there in their strategies to break the intensity of economical problems. Financial crisis is one of the major factors which urged a number of countries to be default. The economical factors which we have discussed before has a direct relation with the influence on the company's environment.

Price & Unemployment Trend Effect: The buying power of every individual differs from than that of other which is totally dependent on their income. Let's forget about the current financial crisis, and think about the Indian economy when it was on its full momentum and the inflation rate is in control. Satisfactory employment rate and good income opportunities constrained the person of the country to utilize the petroleum products excessively, which ultimately leaves a positive impact on the performance of the oil companies like shell, but the current liquidity crunch compelled hundreds of thousands of industries to slashed jobs which hiked the unemployment rate up to discretionary level. Current economical situation makes the life of a person exacerbate and it is so difficult for them even to stifle. Unemployment and high inflation rates in India resultantly effects negatively on about every industry and especially the oil industries are in severe distress. Mounting business cost and depleting economy situation suppressed the oil companies to cut down their supply of oil and curb the

jobs from the company. Recently government increased the prices of per liter Petrol by 4 Indian Rupees, which have a direct relation with overall commodities prices. The action decrease the consumption of oil with in the country and rightly so the people are living their life hand to mouth and due to the current financial turmoil a number of people spending their life below the poverty line, so how they expect to consume petrol in excessive quantity.

#### **Interest rates and Global Trade Effects:**

Due to the current economic slump the global trade of India deteriorated rapidly, because almost every country has dearth of adequacy of the products, in which they usually trade, United States of America, United Kingdom, Germany and other developing countries are the major alleys in trading, but these countries are also in a severe distress of the credit crunch, that is why intervention in the global trade has been countenanced from last year. The Reserve Bank of India (RBI) also increased the discount rates and Cash Reserve requirement (CRR) rate, to fetch the country's treasury pertinently.

Shell Company India also faced a numerous problems regarding the current increment in the discount rates because now they have to pay large amounts as interest to their creditors. If the government relay seems to viable the company then they have to contemplate on the interest rates issue.

**(S)OCIAL ISSUES WITH THE COMPANY:**

It has been observed that the Shell Company doesn't have a good connection with that of other oil companies operating in the country. For the enlargement of their business, the company has to expand its social circles with the in the country. It can be done at the corporate levels and with the virtue of the Government. Shell India can expand their business if they enhance their relations with other oil companies.

**(T)ECHNOLOGICAL ISSUES FOR THE COMPANY:**

Technology is of the major thing which is an essential requirement to viable a country's economy and the productivity of a company. It has been observed that no major improvement has been innovating from past decade in the petroleum industry. If we seen in Europe than we observe that there is very good system of detecting the data of the customer and also has a wonderful system to receive payments from the customers online. Albeit, the Shell company in India is one of the biggest companies operating in the country, so in order to maintain the same status they have to prudently look over their technological issues and do proper check and balance of their lacking. This is the only way they can enhance their productivity and performance which ultimately effect positively on their net profit.

**CONCLUSION:**

Royal Dutch Shell Company of India is one of the largest companies operating in India. The company is registered on the Stock Exchange of the country and due to their excellent financial health; they have a wonderful track record in facilitation to their shareholders as well as their customers. PEST analysis reveals that there are certain issues, which they really have to

taken into consideration, if they really want to dominate in the future like they are dominating presently. We really emphasized on the economical issues in our PEST analysis, which may become a peril threat for the company, if they doesn't mitigate accordingly.

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