

Pest analysis – hsbc holding plc

Business



PEST Analysis Report of HSBC Introduction HSBC holding plc is a global banking and financial services company headquartered in London, United Kingdom. The business of HSBC includes personal financial services (retail banking), commercial banking, global banking and markets (investment banking), and private banking. HSBC holding was founded in 1991 by the Hongkong and Shanghai Banking Corporation.

The bank's first branches were original opened in Hong Kong and Shanghai in 1865. HSBC lists on the London, Hong Kong, New York, Paris and Bermuda stock exchanges.

In 2010, the total revenue of HSBC is 98. 918 billion US dollars, with more than 13 billion US dollars profit. (HSBC, 2011) According to the Forbes magazine (2011), HSBC is the second largest banking and financial services company in the world, and its international network comprises around 7, 500 offices in 87 countries and territories. (HSBC, 2011) This report will analyse several environmental forces that may influence HSBC and its business by the method of PEST analysis (Political-legal, Economic, Socio-cultural, and Technological analysis).

It is significant for all companies to identify the external environment in which they are operating business in order to help the company to make decisions and to manage long term survival strategies which will also help the company not to fail when the external environment change. Political-legal Environment HSBC is a multinational company and it operates in many nation states. Therefore, decisions made by those political entities may have significant impacts on the prospect for HSBC achieving the objectives it has set itself. Griffiths ; amp; Wall, 2008) Moreover, since different countries <https://assignbuster.com/pest-analysis-hsbc-holding-plc/>

have their own political and legal system, the political environment that HSBC confronts in different countries may vary. And as a multinational company, HSBC also have to face some Global or regional political environment.

Generally, there are two broad ranges of political risks faced by HSBC existing in every country: Macro-political risks which potentially affect all firms in the country, and Micro-political risks which only affect HSBC or its industry. (Griffiths ; amp; Wall, 2008)

In 2010, as a response to the request of G-20 2009 Pittsburgh summit, IMF (International Monetary Fund) proposed an idea of ‘ Financial Stability Contribution’ in the context of the Late-2000s Financial Crisis. (Page, 2010) As a result of this, in early-2011, many countries increased bank levy. In the UK, the government raised the levy on banks to ? 2. 5bn. (BBC, 2011) This tax policy increases the additional costs of HSBC, as it has measured that the levy would have seen HSBC pay about ? 370 million if it was in place last year.

Metro, 2011) To response this, managers of HSBC travelled Europe seeking support for bank levy backing. (FT, 2010) And the chairman of HSBC, Douglas Flint even announced that the company would decide whether to relocate out of London to another financial center. (Tax-news, 2011)

Although, HSBC soon denied moving headquarter to anther places, but it has raised the concerns spread out the media about whether the high bank levy makes banks basing on the UK more costly. (BBC, 2011) In addition, HSBC may have to face several micro-political risks in certain countries.

According to a report by PwC (2010), in 2009, after-tax profits of HSBC China declined 60% from 2008 to \$106.

5 million. In the meantime, after-tax profits of Chinese local banks increased 200%. The main reason why HSBC could not be as competitive as the Chinese local banks is that there are many barriers confronting foreign banks in China – they are not able to build a business of any scale in China, since the Chinese legislations limits on how many local banking operations can lean on foreign banks.

HSBC as a foreign bank in China is reined by those legislations and as a result of this, HSBC is in a disadvantage competitive condition. Despite that, as the Chinese market is still attractive with a huge potential comparing with other markets, HSBC and other foreign banks would stay at China and even plans to expand. (China daily, 2011) Economic Environment For banks like HSBC, economic environment such as interest rates, unemployment rates, inflation rates and the overall economy in such countries where HSBC operates its business are essentially important.

Decisions made by managers of HSBC must regard these issues. In terms of interest rates, since 2007, the Bank of England has reduced the official bank rate from 5.75% to 0.5%, the lowest rate throughout the history. (Bank of England, 2011) In one hand, the low interest rate will boost consumption in order to boost the entire economy, but on the other hand it also has strong impacts on HSBC and other retail banks in the UK in two ways: firstly, savings received by HSBC from savers will decrease; secondly, the interests of loans charged by HSBC will reduce as well.

For retail banks, these two parts are essentially significant, since their profit mainly come from the surplus value between the interests paid by borrowers and the interests paid to savers.

Therefore, because of the low interest rate, the retail banking services of HSBC may lose profits. In the context of Financial Crisis, the economic environment that HSBC confronts is becoming more troublesome, since many aspects of the overall economy in such countries struggling with the Crisis got worse. According to the annual report of HSBC (HSBC, 2008), HSBC made a \$17. bn loss and closed about 400 branches in the US in 2007 due to the Credit Crisis. (BBC, 2008) However, thanks to the growth of emerging markets in Asia Pacific where HSBC have been operating business for many years, HSBC was soon recovery from the crisis, by the first half of 2010, the pre-tax profit of HSBC was \$11. 1bn more than double its profits for the same time in 2009 (BBC, 2011), while other banks were still struggling with the crisis.

Socio-cultural Environment Business exists to serve the needs and wants of people. Therefore people, or rather customers are significant for every business enterprise.

HSBC have paid many attentions on this, the advertising statement ‘ the world’s local bank’ has been being announced since 2002. People living in different regions, countries, or communities have their own culture backgrounds, sometimes their attitudes may be influenced by their culture. For example, the Chinese tend to save their money rather than spend them, in 2007, gross national saving of China was 54. 1%, while the figure was 15.

6% in the UK (Ma and Wang, 2010), for HSBC, high saving ratio means that its retail banking services could benefit from it.

Therefore, in 2006, after many years struggling with the Chinese government, HSBC was allowed to receive deposit from public in China. (PwC, 2010) In the context of Financial Crisis, banks like HSBC are facing some new challenges — people are less trusting of banks and the public now see banks as powerful and greedy organizations who messed up society. Therefore people may put more pressure on governments to impose more taxes from banks. One example can be found is that in 2009, because of the pressure from public the US imposed 90% tax on the Wall Street bonuses.

(Belfast telegraph, 2009) However, HSBC did not realize and failed in response to this issue, the company did not do anything to get back the trust of public. Technological Environment Since late 20th century, there have been numerous technological changes taken place in our world.

Technological change can have significant impacts on the decisions taken by business. Moreover, it can be embodied in new products which were not previously available, such as the online banking services which is directly result from the advances in microprocessor-based technologies. (Griffiths & Wall, 2008)

To response this, HSBC has launched its internet banking services many years, and from these services customers are allowed to access their bank account through the web or even mobile phones, and it provides a range of services such as check user's balances and transactions, make transfers and

pay bills. New technologies also allow the company itself to speed up their process through the internet, which can cut a large amount of costs.

According to Ravi (2007), 83% processes of HSBC were done through the internet. Moreover, the developments of mobile phones also have been altering many aspects of traditional banking services.

Firstly, through the mobile internet, users can access to their bank account. HSBC has launched mobile banking services for many years. Secondly, due to the development of smart phones, some applications allow users to pay bills through their mobile phones which connected with bank account. HSBC has developed several applications for iOS (iphone) and Android operating system.

Conclusion PEST factors, which are always changing rather than constant, are significant for every company to succeed in its business, and reactions to these changes determine whether a company can be successful or not.

Throughout HSBC's history, the political, economic, social and technological environment confronted by HSBC have always been changing, but due to the appropriate reaction applied by the HSBC, it survived in those harsh conditions and getting increasingly stronger, while many others failed and disappeared. However, it is necessary for HSBC to put more effort into examining the continually changing environments they are confronting in the contemporary world. Fail or even later response to these changes may have significantly impacts on its business.

In the future, HSBC need to adjust its corporate value and culture and put more effort such as through advertisement or social networks in order to get

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back the trust of public which have lost due to the Financial Crisis, and for its business itself, HSBC should pay more attention to the emerging markets which have huge potential, most importantly, HSBC should always be keeping pace with the development of technologies which would satisfy customers and reduce its costs in order to succeed in the more competitive future.

Reference Bank of England (2011, July 7th).