

Pestel factors which  
directly and indirectly  
affect structure of  
organization



**ASSIGN  
BUSTER**

Political: Takes into consideration, what is happening politically in the environment in which you operate, including areas such as tax policy, employment laws, environmental regulations, trade restrictions and reform, tariffs and political stability.

Economic: what is happening within the economy, for example; economic growth/ decline, interest rates, exchange rates and inflation rate, wage rates, minimum wage, working hours, unemployment (local and national), credit availability, cost of living etc.

Sociological: what is occurring socially in the markets in which you operate or expect to operate, cultural norms and expectations, health consciousness, population growth rate, age distribution, career attitudes, emphasis on safety, global warming.

Technological: what is happening technology-wise which can impact what you do, technology is leaping every two years, how will this impact your products or services, things that were not possible five years ago are now mainstream.

#### WHEN TO USE IT?

This analytical tool can be used for many different purposes like businesses and strategic planning, organisational change, product development & research reports, etc. This tool has to be implemented in a regular and ongoing process to spot trend before others to provide competitive advantage.

#### WHAT DO WE NEED BEFORE IN ORDER TO DO IT?

<https://assignbuster.com/pestel-factors-which-directly-and-indirectly-affect-structure-of-organization/>

Decide how the information is to be collected and by whom (a team approach is much more powerful than one person's view)

Identify appropriate sources of information

Gather the information - it is useful to use a template as the basis for exploring the factors and recording the information.

analyse the findings

identify the most important issues

identify strategic options

write a discussion document

disseminate and discuss the findings

Decide which trends should be monitored on an ongoing basis and what actions need to be taken.

There are a number of advantages and disadvantages associated with using a PESTLE analysis:

Advantages

it is a simple framework

it facilitates an understanding of the wider business environment

it encourages the development of external and strategic thinking

it can enable an organisation to anticipate future business threats and take action to avoid or minimise their impact

it can enable an organisation to spot business opportunities and exploit them fully.

#### Disadvantages

some users over simplify the amount of data used for decisions - it is easy to use scant data

to be effective this process needs to be undertaken on a regular basis

the best reviews require different people being involved, each having a different perspective.

access to quality, external data sources can be time consuming and costly

the pace of change makes it increasingly difficult to anticipate developments that may affect an organisation in the future

the risk of capturing too much data is that it may make it difficult to see the wood for the trees and lead to 'paralysis by analysis'

the data used in the analysis may be based on assumptions that subsequently prove to be unfounded (good and bad).

(Morrison, 2010)

The above analytical tool is again structured as opportunity & threats in another analysis known as SWOT (acronym for Strength, Weakness,

<https://assignbuster.com/pestel-factors-which-directly-and-indirectly-affect-structure-of-organization/>

Opportunity & threats) analysis. This would give a in-depth knowledge to the management of the external threats & opportunity to the firm and how they could deal with it in relevance.

Using PEST Analysis, I will now analyze PT Hidroflex Indonesia which is a metal expansion joint manufacturer out of Indonesia. Please refer [www.pthidroflex.com](http://www.pthidroflex.com) for further information.

## **POLITICAL**

**Risk of doing business in Indonesia which is politically unstable and also an unknown market**

## **ECONOMICAL**

**Indonesian rupiah very low exchange rate.**

**Low monetary investment to build a company**

## **SOCIAL**

**Unique culture**

**Moslem influence**

## **TECHNOLOGICAL**

**Availability of engineers in Indonesia**

## **VALUE CHAIN ANALYSIS**

The father of Porter's five forces, Michael E Porter had designed this model to understand how the value is added to the final product of the company. It comprises of all the two main activities of the organisation regarding a physical product which is:

Primary Activities

<https://assignbuster.com/pestel-factors-which-directly-and-indirectly-affect-structure-of-organization/>

## Secondary Activities

These activities consist of different functions of the organisation which are correlated in order to be efficient. The model stresses that the information in all the functions should be free-flowing and efficient. The primary activity comprises of all

Inbound Logistics

Operations

Outbound Logistics

Marketing and Sales

Service

**The above figure shows the secondary activities as follows**

**Procurement**

**Technology**

**Human Resource Management**

**Firm Infrastructure**

**These are very easy to use and can easily help to find the core competencies of the company.**

One of the limitations of the value chain model is that it describes an industrial

Organization which essentially buys raw materials and transforms these into physical products.

<https://assignbuster.com/pestel-factors-which-directly-and-indirectly-affect-structure-of-organization/>

The limitations of the model include the fact that ‘value’ for the final customer is the value only in its theoretical context (Svensson, 2003), and not practical terms.

## **PORTER’S FIVE FORCES – Industry Level Analysis FUNCTIONS AND USAGE**

Porter’s five forces analysis is used by strategists across various industries when making a qualitative evaluation of a firm’s strategic position. It however doesn’t end there; a value chain analysis and a generic strategy may follow. Porter made it clear that the five forces model should be used at the line-of-business industry level. He explained that it’s not designed to be used at the industry group or industry sector level. He also makes clear that for diversified companies, the first fundamental issue in corporate strategy is the selection of industries (lines of business) in which the company should compete; and each line of business should develop its own, industry-specific, five forces analysis. (Porter, *Competitive Strategy*, 1980) In simple terms, an industry should be defined as a group of firms that market products which are close substitutes for each other

Porter explains that there are five forces that determine industry attractiveness and long-run industry profitability. These five “competitive forces” are

The threat of new entrants

The threat of substitutes

The bargaining power of buyers

<https://assignbuster.com/pestel-factors-which-directly-and-indirectly-affect-structure-of-organization/>

The bargaining power of suppliers

The degree of rivalry between existing competitors

Threat of New Entrants

New entrants to an industry can raise the level of competition, thereby reducing its attractiveness. The threat of new entrants largely depends on the barriers to entry. High entry barriers exist in some industries (e. g. shipbuilding) whereas other industries are very easy to enter (e. g. estate agency, restaurants). Key barriers to entry include

Economies of scale

Capital / investment requirements

Customer switching costs

Access to industry distribution channels

The likelihood of retaliation from existing industry players

Threat of Substitutes

The presence of substitute products can lower industry attractiveness and profitability because they limit price levels. The threat of substitute products depends on:

Buyers' willingness to substitute

The relative price and performance of substitutes



The costs of switching to substitutes

Bargaining Power of Suppliers

The cost of items bought from suppliers (e. g. raw materials, components) can have a significant impact on a company's profitability. If suppliers have high bargaining power over a company, then in theory the company's industry is less attractive. The bargaining power of suppliers will be high when:

There are many buyers and few dominant suppliers

There are undifferentiated, highly valued products

Suppliers threaten to integrate forward into the industry (e. g. brand manufacturers threatening to set up their own retail outlets)

Buyers do not threaten to integrate backwards into supply

The industry is not a key customer group to the suppliers

Bargaining Power of Buyers

Buyers are the people / organisations who create demand in an industry

The bargaining power of buyers is greater when

There are few dominant buyers and many sellers in the industry

Products are standardised

Buyers threaten to integrate backward into the industry

Suppliers do not threaten to integrate forward into the buyer's industry

The industry is not a key supplying group for buyers

### Intensity of Rivalry

The intensity of rivalry between competitors in an industry will depend on:

The structure of competition - rivalry is more intense where there are many small or equally sized competitors; rivalry is less when an industry has a clear market leader

The structure of industry costs - industries with high fixed costs encourage competitors to fill unused capacity by price cutting

Degree of differentiation - industries where products are commodities (e. g. steel, coal) have greater rivalry; industries where competitors can differentiate their products have less rivalry

Switching costs - rivalry is reduced where buyers have high switching costs - i. e. there is a significant cost associated with the decision to buy a product from an alternative supplier

Strategic objectives - when competitors are pursuing aggressive growth strategies, rivalry is more intense. Where competitors are "milking" profits in a mature industry, the degree of rivalry is less

Exit barriers - when barriers to leaving an industry are high (e. g. the cost of closing down factories) - then competitors tend to exhibit greater rivalry.

(Porter, Competitive Strategy, 1980)

## **Advantages**

A simple but powerful tool for understanding where power lies in a business situation

It helps to understand both the strength of a current competitive position, and the strength of a position an organisation may be considering moving into

It's a good tool for identifying the viability of new products, services or if businesses have the potential to be profitable

It can be very illuminating when used to understand the balance of power in an industry

## **Disadvantages**

There may be significant uncertainty that renders such expectations meaningless. That uncertainty might be driven by temporary macro economic conditions for example the price of oil going down, then massively up followed by a sharp fall again. Or significant shifts in government policy

Sometimes it may be better to create a new industry than selecting existing ones

It doesn't cope with synergies and interdisciplinary in large corporations. A very narrow concentration on certain segments of these industries brings the risk of missing significant elements

Some claim if every company adopts these strategies, none would be able to have a competitive advantage. Knights does not fully agree with Porter's theory emphasizing that it is attractive to management because it gives 'some illusion of control, legitimacy and security in the face of uncertainty' (Knights, 1992)

Porter's model is based on the competition idea. It supposes that companies try to achieve competitive advantages over competitors in a market, as well as over suppliers and consumers.

## **PORTER'S FIVE FORCES Analysis of PT Hidroflex Indonesia (www. pthidroflex. com)**

### **Bargaining Power of Supplier**

The suppliers are the different metal sheet manufacturers and other carbon steel elements. These have a standard market price and since PT Hidroflex Indonesia doesn't require material in bulk, therefore the suppliers have a large bargaining power.

### **Bargaining Power of Buyers**

Buyers in this market have a lot of power but it is restricted to the large companies. The smaller ones have lesser bargaining power. PT Hidroflex Indonesia's products are not very easily attainable in Indonesia so this reduces the customer's bargaining power.

### **Threat of New Entrants**

The threat of new entrants is low because barriers to entry now include high capital cost, economies of scale, distribution channels, proprietary technology, environmental regulation, geopolitical factors, and high levels of industry expertise needed to be competitive in the areas of metal expansion joint manufacturing.

#### Threat of Substitutes

Sometimes smaller companies will use U loops in place of Metal Expansion joints. This can be taken as a substitute but it is not a good substitute since it has many side effects like pressure drop, increase of area etc.

#### Competitive Rivalry

**This Rivalry is provided only by companies from overseas. The Local market is pretty much monopolized by PT Hidroflex in Indonesia**