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# Pestle Analysis Introduction

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# PESTLE ANALYSIS



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## Abstract

The purpose Of the PESTLE analysis is to make you look around and see What is happening in the broader economic and business environment. All Projects are part of a larger system, the economy. Doing a PESTEL analysis helps you to look at all important factors that might affect the success or failure of your project.

PESTEL is an acronym for the following factors (Political, Economic, Social and cultural, Technological, Environment and Legal)

The core elements of the analysis are: 'Political', 'Economic', 'Social' and 'Technology'. To these core elements are added 'Environment' and 'Legal' to make the PESTEL the potential issues to examine could volumes and still only scratch the surface so this discussion Focuses on the approach. The detail Will depend on the corporation, its industrial sector and the countries within which it operates.

The PESTLE analysis enables a manager to identify the key macroeconomic factors that may have an influence on the future development of the project.

Why is it successful? The identification of future macroeconomic variables of interest and the construction of different scenarios allow the manager to better anticipate the strategic decisions needed to ensure the proper development and sustainability of the business

## THE ORGANIZATION AND ITS ENVIRONMENT

Characterized by an ever-changing environment, Our Current society differs in many ways from What it was before. Adapting to the changing and competitive environment has now become a necessity for any manager wanting to keep their business afloat and prosper in the coming years. The environment (macroeconomic dimension) has actually proved itself to be a source of both opportunities and threats for any company on the market, regardless of their industry sector. Therefore, a confirmed anticipation of the lambda macroeconomic phenomenon Will soon provides a direct competitive advantage for the executive if this allows them to react efficiently before their competitors. On the other hand, if a manager underestimates a momentous event in the market, they Will quickly find themselves struggling against competitors whose forecasts are more complete, as they Will have to face their competitive and aggressive strategies. For example, companies that did not anticipate the expansion and opportunities offered by the internet in time had a bitter experience at the beginning of the century.

As the ability to predict certain future events seems to be the key to the success, good development and even, in some cases, the survival of a company, there are always people who claim, after a change in the environment, that the indicators were inevitably

moving in that direction anyway. Yet anticipating these indicators is far from easy, and not everybody possesses Cassandra's skills in predicting the future

It is in this context of uncertainty that the PESTLE analysis appeared, which aims to identify and analyze the macroeconomic variable relevant to an organization in a specific environment.

## **DEFINITION OF THE PESTLE MODEL**

The analysis was given the name PESTLE in reference to the acronym formed by the initials of the six categories of macroeconomic variables included in the model (Political, Economic, Socio-cultural, Technological, Legal and Environmental). Firstly, the model allows managers to identify the macroeconomic variables to take into consideration for the development of the business (opportunities vs. potential risks) for which realization remains relatively uncertain. Then, the model can initiate the conceptualization of different scenarios based on these uncertain variables to better predict the future and make the right decisions today in the interest of the future.

## **PESTLE analysis**

Your work in analyzing the five factors affecting your industry may have given you some ideas of the threats and opportunities your

organization is currently facing. However, Porter's five forces analysis does not help you to anticipate how the broader environmental influences will affect your industry — how it may change. You need to look beyond your industry boundaries to the macro-environment.

One way of doing this is through PESTLE analysis. You can use PESTLE analysis to identify forces in the macro-environment that are affecting your business now and are likely to continue to do so in the future. You examine Political, Economic, Socio-cultural, Technological, Legislative and Ecological aspects of the wider environment.

## **INTRODUCTION TO THE PESTLE MODEL**

The PESTLE Analysis is used as a tool to situational analysis for business evaluation purposes and is one of the most used models in the evaluation of the external business environment that is highly dynamic (Gupta, 2013), A business interacts with its external environment in its operations and the external factors are uncontrollable by the business. Moreover, PESTLE analysis forms the basis for the identification of the opportunities and the threats that helps in the SWOT analysis. The PESTLE model takes into account key aspects in the external environment and appraises each of them to form conclusions of industry attractiveness,

market potential, to determine current market and industry performance and to predict market or industry key success factors and trends for future growth and success as explained.

The application of the model will highly depend upon the industry or market the organization is based in and factors to be taken into consideration by one business competing in one industry may differ from that of the factors that should be concerned by a business within a different industry. The model is also heavily used in academically related work such as research reports, assignments, degree programs, business writings etc. which will also give the students a basic idea of this critical model and how to use it in their academic writings. The benefits of this model for a business is huge (Dwyer & Tanner, 2002). However, limitations should be also noted and steps should be taken to minimize any loopholes in the outcome derived from the model for effective decision-making purposes (Thomas, 2007).

## **The value of a PESTEL analysis**

This type of analysis is done when managers want to look at the type of external influence that may affect the business in the future. Each of the letters stands for a key area the organization will consider.

The key to PESTLE analysis is to identify a few important factors



that are likely to have a significant effect on your industry and organization, Factors that are likely to interact with each other may be particularly important as they may have greater implications on your industry. When you have identified key factors, you can consider how they may affect your industry — using Porter’s five competitive forces as a framework.

## **IMPORTANCE OF THE PESTLE MODEL FOR BUSINESSES**

The model helps in the evaluation process of the dynamic and competitive business environment. The model appraises each of the key factors, which are directly and indirectly affecting the business performance so that strategies could be developed to overcome the issues for a better market position (Johnson, et 2013). The model enables the organization to understand its market position, the trends and many aspects that is a to update the strategy, targets and performance Schedules (Dwyer & Tanner, the model can be also used in risk ascertainment and to develop risk response strategies based on the risk capacity of the organization

## **LIMITATIONS OF THE MODEL**

One of major of the limitations that the outcome may become Outdated in less time following the delivery changes if the is in a

technology-based industry (Wolfe & Buchwald). Moreover, the process of the market survey is time-consuming and can be costly to the company. Further, even though the model tries to highlight the key aspects, further drill is essential for a more comprehensive evaluate' of factors in concern using other such as diagrams, regression and analysis etc. The outcome of the model can have distorted following the false inputs of the research which he also for example, the research may not use the possible where they may not give real picture. Thus, it is clear that limitations and weaknesses are also inherent to the that is to considered by the (Vrontis & Pavbu, 2018). it can be recommended to use the model in collaboration with other two most important models Porter's five Forces and SWOT Analysis for a more effective and comprehensive Situational Analysis.

## **PESTEL analysis factors**

PESTEL analysis factors are: Political, economic, sociocultural, technological, environmental and legal factors provide a framework to analyses and categories environmental influences impacting upon public health. Sometimes the same topic may feature under two or more aspects of PESTEL analysis, e.g. government policies provide insights into priorities (political) but also may be a driver for technological advances. A PESTEL analysis

enables the identification of public health opportunities provided by environmental conditions as well as current or emerging threats. The information from the PESTEL analysis can be used to further develop the SWOT analysis, e.g. local facilities for family planning may have been identified as a strength within the SWOT analysis. The PESTEL analysis may reveal the need to reduce the number of teenage pregnancies. There is therefore an opportunity to use of the strengths identified (family planning facilities) to address the issue of reducing the number of teenage pregnancies. However, the SWOT analysis may have also identified a weakness in that the family planning services are not situated near any of the schools, so there is restricted access to these facilities. Future opportunities can have identified by reviewing current and emerging governmental and organizational policies related to public health and assessing how well these are or can be met within current constraints. Threats include anything that impacts upon the ability to deliver public health to the population, e.g. funding issues, legal constraints, etc.

The SWOT and PESTEL analyses provide a view of how well the current public health strategy is being achieved, and what the future challenges may be. In order to develop a meaningful public

health strategy a needs assessment Will also have to be undertaken.

## **The collection of PESTEL analysis factors**

Since this is a popular and regularly used model, both for completing business plans, production or marketing strategies, and for launching new projects (e.g. when developing a new product on a market that the company has not yet entered), the approach must be specific.

The primary objective of the PESTLE analysis is the identification of unavoidable macroeconomic changes that might have a significant impact on the development of a company (in terms of its products, its brand or even its entire organization). Therefore, it is not about conducting a comprehensive study of the external environment: the in-depth analysis of macroeconomic variables is only relevant in relation to a specific company, so that it can anticipate the changes that are likely to occur on its scale.

Indeed, of all the macroeconomic events that Will occur in the coming years, only some of them Will exert a real influence on the evolution of the company. Therefore, it is the manager's responsibility to distinguish between the variables that can directly or indirectly affect the organization and those that Will only have a minor impact on its sustainability. Hence, an executive at the head Of an Oil company Will not react to the recent discoveries on the

contributions of shale gas in the same Way as an executive of a shipping company, or the owner of a sandwich shop!

Macroeconomic variables are classified into six distinct, though relatively interdependent, categories:

### **Political factors**

The political trends in a country (government pressure, monetary policy, etc.) significantly influence the company that chooses to establish itself there: established public authorities are making more and more decisions that can have a direct impact on daily operations and the prospects of a company's financial (notional interest, etc.) and social (employment assistance, subsidies, etc.) aspects. Other elements, such as conflict, the level of corruption, or the degree of state intervention should also be considered.

Furthermore, an entrepreneur who launches a commercial business in a country with perpetual governmental conflict should ensure that they respond to the needs of the indigenous inhabitants, which Will be different from those living in a country with stability and peace. Also note that there are bodies such as the European Commission and the World Trade Organization (WTO) that govern international trade policies.

### **Economic factors**

While it is virtually impossible for a company to change the economic situation, it can definitely make preparations in order to

better deal with fluctuations. Observing the evolution of a country's GDP, its tax rates and the growth of the inhabitants' purchasing power will prove crucial in possessing all the factors necessary for managerial decision-making. The economic success of a business also involves the observation of key figures relevant to the sector and the analysis of consumer trends. Thus, anticipating a significant decrease in purchasing power allows the company to adapt its overall strategy to minimize losses.

### **Socio-cultural factors**

Knowing the characteristics of a population (demographics, age distribution, etc.) in order to understand its buying behavior is essential to conquer a market. Moreover, history – roots and traditions – as well as religious and socio-cultural influences (fashion, media, means of communication, etc.) allow the company to refine their analysis of the specific needs of the individuals involved. For example, nationals of Mediterranean countries develop different needs in many ways to those of their counterparts in the Baltic countries due to their culture, the climate in which they live or their religion.

### **Technological factors**

Today, many experts are busy working in every corner of the planet, seeking to revolutionize existing processes. While some of these findings are not likely to influence the target market, others

have the potential to completely change all norms. The internet revolution came as a surprise to many managers, and those who anticipated its increased use gained a significant competitive advantage. Therefore, it seems natural to investigate the practices in (research and development) and innovation in the chosen field (core business) of the company. Continually questioning the product, as well as the processes involved in its preparation and acquisition by the customer, is the key to successful technological observation.

## **Legal factors**

Staying informed of regulations (labor laws, trade laws, etc.) in the country where the company is or Will be located — legislation varies from one place to another — is now one of the best ways to protect the company from possible legal attacks and act in the best way possible within legal constraints. For example, regulations concerning the carrying of weapons are not the same in every country, and any astute trader wishing to engage in this sector Will quickly adapt their communication and distribution according to the legislation in force in the country concerned. Tax incentives may also lead the well-informed manager to turn towards some countries rather than others.

## **Environmental factors**

The 21st century is a continuation of the positioning the environment and sustainable development at the heart of debates more than ever- The worrying climate change, constantly increasing pollution, waste sorting that varies from one country to another, etc.: nowadays these aspects interest and preoccupy more and more people and those.

## **The PESTEL analysis Explanation**

PESTEL analysis is a very detailed study of these changes using a range of published sources such as government surveys, statistics about the State Of the economy, social trend surveys, as well as some primary analysis.

It is important to remember that there will be considerable overlap between PESTEL factors so it is not necessary to neatly categorise them into a separate

## **Political changes**

A shift in political thinking associated with a change in government can have a major impact on business. For example, the Conservative government Of 1979—97 emphasized the importance of individuals in society looking after themselves and promoted an enterprise culture which encouraged business initiative. While the current Labor government is still very



concerned with the development of enterprise and partnership with business, it is also concerned with creating an 'inclusive society' in which the state seeks to include everyone rather than to exclude: for example. through job creation schemes so that everyone is included in work in the economy. Under Labor, taxes on business have increased and measures such as the adoption of the minimum wage are seen by some businesses as harmful because it may raise their costs. Other political changes of significance are different parties' views on the European Union. For example, Labor is far more committed to the UK adopting the euro than is the Conservative Party.

## **Economic Changes**

The economy goes through a cycle of periods of increasing economic activity followed by periods of recession. Business needs to be aware of where the economy stands in relation to this cycle. Boom periods encourage business strategies of expansion and growth while recessions create a hostile environment. Other economic factors that business needs to take into account are changes in interest rates and changes in exchange rates. A rise in interest rates discourages business growth, while reductions in interest rates have the reverse effect. A rise in the Price of the pound against competing currencies may have a negative impact on businesses that export because this raises UK prices relative to

those of competing firms. A reduction in the pound makes U K goods more competitive. Other key economic indicators that need to be considered in a PESTEL analysis include inflation, consumer expenditure and disposable income, and various costs (transport, energy, Communication and raw material costs).

## **Social changes**

Over time many changes take place in society which are relevant to business. Key changes include those in population, in tastes and buying patterns. in employment patterns, and so on. Trends and tastes are constantly changing leading to regular changes in buying patterns. Employment patterns also need to be studied: for example, the growing numbers of women in the workplace have led to an increased demand for convenience food, and so on. Other important social changes are Shifts in values and culture, education and health, and distribution of income.

## **Technological changes**

The application of information and communication technologies in the first decade of the twenty-first century is having a dramatic impact on business. More people than ever before are buying on-line, forcing most large businesses to develop strategies involving e-commerce. Other technological changes involve the product of new research initiatives, levels of expenditure on research and development, and government support of new technologies.

## **Environmental changes**

Increasingly, organizations have had to develop environmental strategies. Today there are international and British standards for environmental quality procedures. Organizations need to be in the forefront of making these changes rather than come from a catch 'up position. In addition, organizations need to respond to 'green issues' being voiced by customers and community groups.

## **Legal changes**

Organizations need to anticipate and prepare themselves for changes in the law. For example, recently the European Union has created new legislation making airlines responsible for paying compensation for delayed and cancelled flights, leading to substantial increases in Costs for airlines. A good PESTEL analysis is not simply a list of changes in the environment that may affect the business, rather it involves identifying the key structural change in the business environment that are relevant to a specific business, and the links that exist between these changes. The PESTEL analysis enables the organization to create the strategies that prepare it for change in advance of the changes occurring.

## **The PESTEL analysis Examples**

- Political future
  - Political parties and alignments at local and national level
  - Legislation, e.g. on taxation and employment law

- Relations between government and the organization (possibly influencing the preceding items in a major way and forming a part of future corporate strategy)
- Government ownership of industry and attitude to monopolies and competition
- Soclo-cuttural future
  - Shifts in values and culture
  - Change in lifestyle
  - Attitudes to work and issues
  - 'Green' environmental issues
  - Education and health
  - Demographic changes
  - Distribution of income
- Economic future
  - Total GDP and GDP per head
  - Inflation
  - Consumer expenditure and disposable income
  - Interest rates
  - Currency fluctuations and exchange rates
  - Investment — by the state, private enterprise and foreign companies
  - Cynicality
  - Unemployment
  - Energy costs, transport costs, Communication costs, raw material costs
- Technological future
  - Government investment policy
  - Identified new research initiatives
  - New patents and products
  - Speed of change and adoption of new technology
  - Level Of expenditure on by organization's rivals
  - Developments in nominally unrelated industries that might be applicable
- Environmental future
  - 'Green' issues that affect me environment
  - Level and type of energy consumed – renewable energy?
  - Rubbish, waste and its disposal
- Legal future

- Competition law and government policy
- Employment and safety law
- Product safety issues

Some strategists may comment that the future is so uncertain that prediction is useless. If this view were true, then strategic management would not be playing such a significant role in organizations today. It is recognized that the future cannot be controlled, but by anticipating the future, organizations can avoid strategic surprises and be prepared to meet environmental changes.

## PESTLE analysis Checklist of issues

- **Political** — Government policies, attitudes to industry, competition, monopolies, government stability, taxation policies, foreign trade regulations, political alignments at local, national, regional and global level
- **Economic** — GNP and GDR inflation, interest rates, exchange rates, investment by state, private enterprise, consumer expenditure, disposable income, infrastructure costs and availability, e.g. energy, transport and communications
- **Socio-cultural** — Demography, consumerism, education and health, social attitudes to work, health, the environment, social mobility, income distribution
- **Technological** — Government spending on research, adoption of new technology, new products and developments, obsolescence of existing technology
- **Legislation** — Employment law, taxation law, company law, health and safety law, patent law, industry regulations

**Ecological** — Pollution control, planning policies, transport policies, disposal of waste.

## Description of the PESTEL Analysis technique

PESTLE analysis provides a framework for investigating and analyzing the external environment for an organization. The framework identifies six key areas that should be considered when attempting to identify the sources of change.

These six areas are:

## **Political**

Examples of political factors could be a potential change of government, with the corresponding changes to policies and priorities, or the introduction of a new government initiative. These may be limited to the home country within which the organization operates, but this tends to be rare these days since many changes have an effect in several countries. The development of bodies such as the European Union and the growth of global trade and multinational organizations have changed the scope of political activity. This has increased the possibility of political issues arising that may impact upon the organization and how it operates.

The political context is important because governments set the rules of the game through policies designed to encourage what the government sees as beneficial to society and discourage activities which cause harm, supported by legislation and the rule of law. It is important that the strategic analysis identifies the relevant government policies and draws out the implications.

The most effective approach is to get inside the mind of government to understand what the government is trying to achieve, this shifts the analysis forward from the current policy debate to provide insight into the legislation in the pipeline. A step yet further is to 'Work out what the government should be doing — even if the government does not yet know it.

Approaching the analysis from the perspective of government allows clear foresight of future policy and advanced insight that no amount of political intelligence could buy. Such deep insight can only come from analysis beyond the boundaries of the corporation's direct interest. This is another example of the benefits of using a wide-angle analytic lens. "this approach is not just responsible behavior but leads to more robust strategy.

Political appraisal by business will often lead onto political lobbying to defend the business of the corporation. This generates a negative reaction from NGOs and sections of the press. The enlightened strategic analysis proposed here leads the corporation to understand where resistance is pointless and shifts the corporation into a space where it can lobby for those elements of future government policy that fit both a better future and the corporation's strategic direction. The latter has not been set, in the first iteration of the strategic analysis, but as the strategy takes shape the external analysis can be reviewed and further

refined.

The output from the examination of the political landscape may include:

- An assessment of relevant current government policy priorities;
- An analysis of the direction of future policy; and
- Identification Of areas where there is likely to be government policy when it wakes up to the issue

## **Economic**

Economic factors may also be limited to the home country, but as global trade continues to grow, economic difficulties in one nation tend to have a broad, Often worldwide, impact. Examples of economic factors could be the level of growth within an economy, or market confidence in the economies within which the organization operates. The 2008 sub-prime mortgage Crisis in the USA, with its subsequent worldwide impact, is a good example of an economic situation that affected many organizations.

## **Socio-cultural**

Socio-cultural factors are those arising from customers or potential customers. These changes can often be subtle, and they can be difficult to predict or identify until there is a major impact. Examples could be demographic issues such as an increase in the number of working mothers, or consumer behavior patterns such as the rise of disposable fashion.



## Technological

This area covers factors arising from the development of technology. There are two types of technological change: there can be developments in IT, and there can be developments in technology specific to an industry or market, for example enhancements to manufacturing technology.

IT developments can instigate extensive business impacts, often across industries or business domains and on a range of organizations. It is often the case that there is a failure to recognize the potential use of the technology — at least until a competitor emerges with a new or enhanced offering. For example, increased functionality of mobile technology or extended bandwidth for internet transactions can present opportunities to many organizations. However, the identification of such technological advances is critical if an organization is to recognize the potential they offer.

It is vital to consider factors arising from changes to the law, since the last decade has seen a significant rise in the breadth and depth of the legal regulations within which organizations have to operate. Legal compliance has become such an important issue during this period that many business analysis assignments have been carried out for the purpose of ensuring compliance with particular laws or regulations. Some legal issues may originate

from the national government but others, for example EU laws or global accounting regulations, may operate across a broader spectrum. One key issue when considering the legal element of the PESTLE analysis is to recognize laws that have an impact upon the organization even though they originate from countries other than that in which the organization is based. This situation may occur where an organization is operating within the originating country or working with other organizations based in that country. Recent examples of this have concerned changes to international financial compliance regulations, such as the Sarbanes—Oxley Act in the USA and the Basel II Accord.

# Important links

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