

PESTLE analysis

PESTLE analysis

- PESTLE is an analytical tool which considers external factors and helps you to think about their impacts

PESTLE analysis

- Is a useful tool for understanding the “big picture” of the environment in which you are operating
- By understanding your environment, you can take advantage of the opportunities and minimize the threats.
- This provides the context within which more detailed planning can take place to take full advantage of the opportunities that present themselves.

The factors in PESTLE analysis

- **P – Political**

- The current and potential influences from political pressures

- **E - Economic**

- The local, national and world economic impact

- **S - Sociological**

- The ways in which changes in society affect the project

- **T - Technological**

- How new and emerging technology affects our project / organization

- **L - Legal**

- How local, national and global legislation affects the project

- **E - Environmental**

- Local, national and global environmental issues

PESTLE vs. SWOT

- In contrast to a SWOT, PESTLE encourages you to think about the wider environment and what might be happening now and in the future which will either benefit or be of disadvantage to the organization, individual etc
 - a kind of radar which picks up trends and developments in the external environment which can be used to inform longer term planning and strategy making

PESTLE

- **Political:**

- Government type and stability
- Freedom of the press, rule of law and levels of bureaucracy and corruption
- Regulation and de-regulation trends
- Social and employment legislation
- Tax policy, and trade and tariff controls
- Environmental and consumer-protection legislation
- Likely changes in the political environment

- **Economic:**

- Stage of a business cycle
- Current and projected economic growth, inflation and interest rates
- Unemployment and supply of labor
- Labor costs
- Levels of disposable income and income distribution
- Impact of globalization
- Likely impact of technological or other changes on the economy
- Likely changes in the economic environment

PESTLE

- **Sociological:**

- Cultural aspects, health consciousness, population growth rate, age distribution,
- Organizational culture, attitudes to work, management style, staff attitudes
- Education, occupations, earning capacity, living standards
- Ethical issues, diversity, immigration/emigration, ethnic/religious factors
- Media views, law changes affecting social factors, trends, advertisements, publicity
- Demographics: age, gender, race, family size

- **Technological:**

- Maturity of technology, competing technological developments, research funding, technology legislation, new discoveries
- Information technology, internet, global and local communications
- Technology access, licensing, patents, potential innovation, replacement technology/solutions, inventions, research, intellectual property issues, advances in manufacturing
- Transportation, energy uses/sources/fuels, associated/dependent technologies, rates of obsolescence, waste removal/recycling

PESTLE

- **Legal:**

- current home market legislation, future legislation
- European/international legislation
- regulatory bodies and processes
- environmental regulations, employment law, consumer protection
- industry-specific regulations, competitive regulations

- **Environmental:**

- Ecological
- environmental issues, environmental regulations
- customer values, market values, stakeholder/ investor values
- management style, staff attitudes, organizational culture, staff engagement

The External Environment



PESTLE analysis and projects

- It is possible to use the PESTLE analysis on projects as well for organizations
- It is not always needed, especially if the projects are small
- If PESTLE analysis is used for a project, then the focus should be on solving the “focal problem” and analyze how the external environment is affecting the process of solving the “focal problem”

Issues of concern

- The main problem with these external PESTLE factors is that they are continuously changing
- Therefore PESTLE analysis should include a thorough analysis of what is affecting the organization or a project **Now**, and what is likely to affect it in the **Future**
- The result of a PESTLE analysis is usually a list of positive and negative factors that are likely to affect a project
 - However, by themselves, these factors mean very little
 - It is important to bear in mind, that PESTLE analysis requires careful **Application** of results

Similar analysis

- **Other forms of PEST - PESTLE, PESTLIED, STEEPLE and SLEPT:**
Some people prefer to use different flavors of PEST analysis, using other factors for different situations. The variants are:
- **PESTLE/PESTEL:** Political, Economic, Sociological, Technological, Legal, Environmental;
- **PESTLIED:** Political, Economic, Social, Technological, Legal, International, Environmental, Demographic;
- **STEEPLE:** Social/Demographic, Technological, Economic, Environmental, Political, Legal, Ethical; and
- **SLEPT:** Social, Legal, Economic, Political, Technological

How the Environment Affects Managers

- Environmental Uncertainty

- The extent to which managers have knowledge of and are able to predict change their organization's external environment is affected by:

- ❖ **Complexity of the environment:** the number of components in an organization's external environment.
 - ❖ **Degree of change in environmental components:** how dynamic or stable the external environment is.

Environmental Uncertainty Matrix

		Degree of Change	
		Stable	Dynamic
Degree of Complexity	Simple	Cell 1 Stable and predictable environment Few components in environment Components are somewhat similar and remain basically the same Minimal need for sophisticated knowledge of components	Cell 2 Dynamic and unpredictable environment Few components in environment Components are somewhat similar but are in continual process of change Minimal need for sophisticated knowledge of components
	Complex	Cell 3 Stable and predictable environment Many components in environment Components are not similar to one another and remain basically the same High need for sophisticated knowledge of components	Cell 4 Dynamic and unpredictable environment Many components in environment Components are not similar to one another and are in continual process of change High need for sophisticated knowledge of components

PEST Analysis framework

POLITICAL:

1. Government support for increasing Internet penetration in India.
2. Tax benefits to corporate.
3. Increase in stock holding % for foreign investors in companies.
4. Resistance against foreign retailers.

ECONOMICAL

1. Booming Indian economy.
2. Increasing spending power.
3. Skyrocketing fuel prices.
4. Base of internet users multiplied by 10 to 11 times in last 6 years.

ENVIRONMENT(Healthy)

SOCIAL

1. Better comfort level and trust in online shopping.
2. High priority on time and convenience.
3. High computer literacy.
4. Peer pressure

TECHNOLOGICAL

1. Advent of Mobile shopping.
2. Increasing penetration rate of broadband and wireless internet.
3. Better managed E commerce site for ease, privacy and advancements in net banking.

Stakeholder Relationships

- Stakeholders

- Any constituencies in the organization's environment that are affected by the organization's decisions and actions

- Why Manage Stakeholder Relationships?

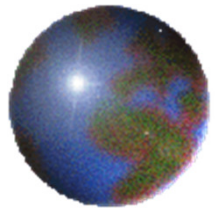
- It can lead to improved organizational performance.
- It's the “right” thing to do given the interdependence of the organization and its external stakeholders.

Managing Stakeholder Relationships

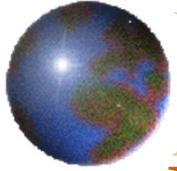
1. Identify the organization's external stakeholders.
2. Determine the particular interests and concerns of the external stakeholders.
3. Decide how critical each external stakeholder is to the organization.
4. Determine how to manage each individual external stakeholder relationship.

Organizational Stakeholders



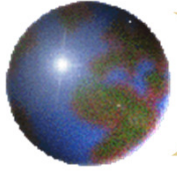


Business-Government Trade Relations



Rationale and Goals of Trade and Investment Policies

- ❖ Government policies are designed to regulate, direct, and protect national activities.
- ❖ The exercise of these policies is the result of national sovereignty, which provides a government with the right to shape the environment of the country and its citizens.
- ❖ The domestic policy actions of most governments aim to increase the standard of living of citizens and to improve the quality of life, and to achieve full employment.
- ❖ These policies affect international trade and investment indirectly.



Why Do Governments Intervene In Trade?

- ✚ **Free Trade** is the pattern of imports and exports that would result in the absence of trade barriers.
- ✚ Governments impose restrictions on free trade for political, economic, and cultural reasons.

Political Motives

Protect
jobs

Preserve
national
security

Respond to
“unfair”
trade

Gain
influence

Economic Motives



**Protect infant
industries**

**Protect emerging
industries during
development from
global competition**

Potential results

- + National income increases
- Wrong industries protected
- Firms grow complacent
- Consumer prices rise
- Public funds poorly spent

Cultural Motives

Nations block imports
deemed harmful

Many countries have laws
that protect their media
programming for
cultural reasons

Protect national
identity



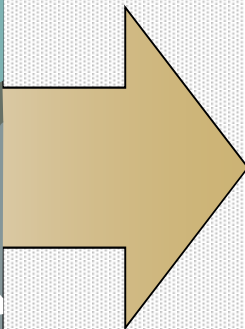


Trade Promotion and Restriction

Trade promotion methods	Trade restriction methods
<ul style="list-style-type: none">▪ Subsidies▪ Export financing▪ Foreign trade zones▪ Special government agencies	<ul style="list-style-type: none">▪ Tariffs▪ Quotas▪ Embargoes▪ Local content requirements▪ Administrative delays▪ Currency controls

Subsidies

Financial assistance in the form of cash, tax breaks, price supports, etc.



Potential results

- + Increased competitiveness
- Encourage inefficient firms
- Increased consumer prices
- Overuse of resources

Export Financing

Financing such as low-interest loans and loan guarantees

Financing is often crucial to small businesses just beginning to export.

Support for large multinational corporations is controversial. Critics say subsidizing large companies at taxpayer expense is corporate welfare





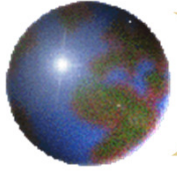
Foreign Trade Zones

- Designated geographic region in which merchandise is allowed to pass through with lower customs duties (taxes) and/or fewer customs procedures

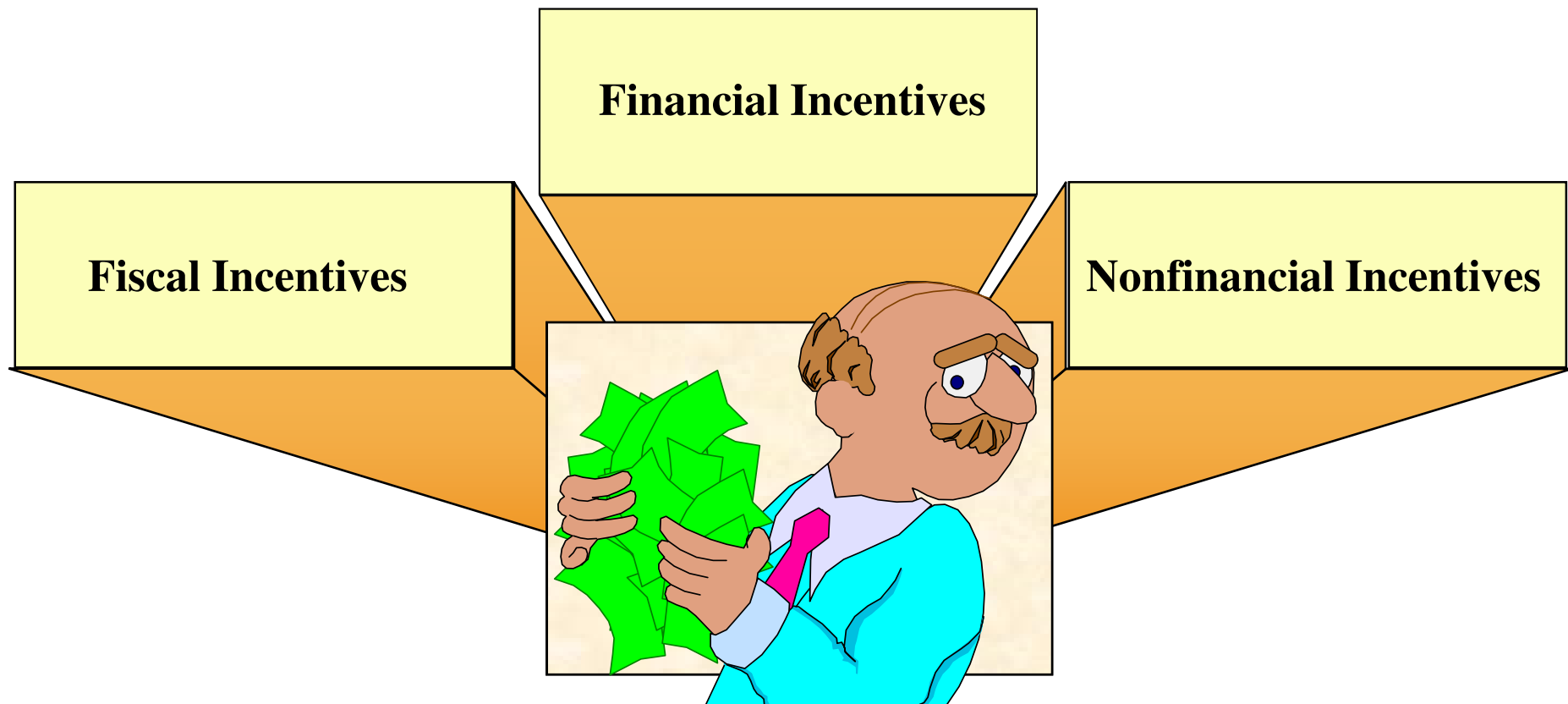
- **Purpose is to increase employment and trade within the nation**

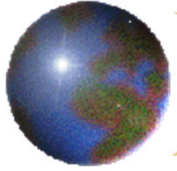
A common purpose of such zones is final product assembly (e.g., Japanese car plants in US can import parts at 50% of normal duty).

Lower customs duties are offset by the jobs created in the United States.



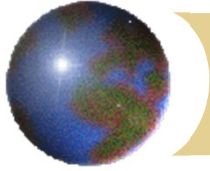
Investment Promotion





Investment Promotion (cont.)

- ❖ **Fiscal incentives** are specific tax measures designed to attract the foreign investor, including special depreciation allowances, tax credits or rebates, special deductions for capital expenditures, tax holidays, and reduction of tax burdens.
- ❖ **Financial incentives** offer special funding for the investor by providing land or building, loans, and loan guarantees.
- ❖ **Nonfinancial incentives** can consist of guaranteed government purchases, special protection from competition, and investments in infrastructure facilities.



Trade Barriers

- ✚ **Trade barriers**...restrictions that prevent foreign products or services from freely entering a country

Tariffs

Government tax levied on a product as it enters or leaves a nation

➤ **Export tariff**

➤ **Transit tariff**

➤ **Import tariff**



Potential results

- + Protect domestic firms from competitors
- + Generate income for the government
- Reduce competitiveness of home-based firms
- Raise consumer prices

Import and Export Quotas

Restriction on the amount of a good that can enter or leave a country during a certain period of time

Import Quotas

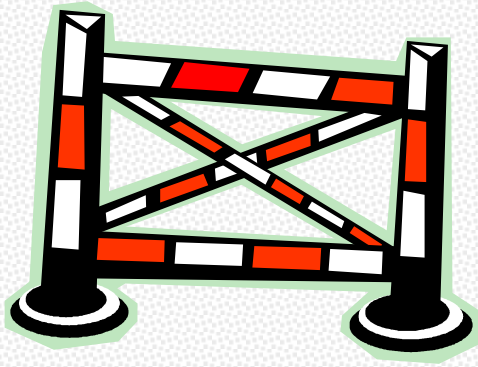
1. Protect domestic producers of a good
2. Force outside firms to compete for market access

Export Quotas

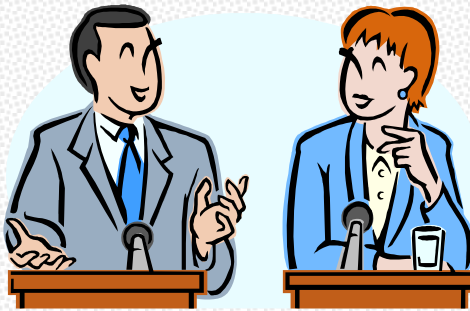
1. Retain an adequate domestic supply of a product
2. Restrict world supply of a product to raise its price

Embargoes

**Complete ban on trade (imports and exports)
in one or more products with a particular country**



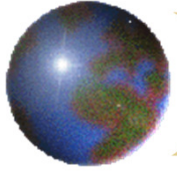
**Most restrictive
nontariff trade
barrier**



**Often used to
achieve political
goals**



**Can be difficult
for a nation to
enforce**



Tariff-Quotas

- ✚ A **tariff-quota** is a lower tariff rate for a certain quantity of imports and
- ✚ a higher rate for quantities that exceed the quota (e.g., agricultural trade).

Local Content Requirements

_____ **Laws that domestic producers
must supply a specific amount
of a good or service** _____



_____ **Forces international companies to
employ local resources (usually labor)
in production process** _____

Administrative Delays

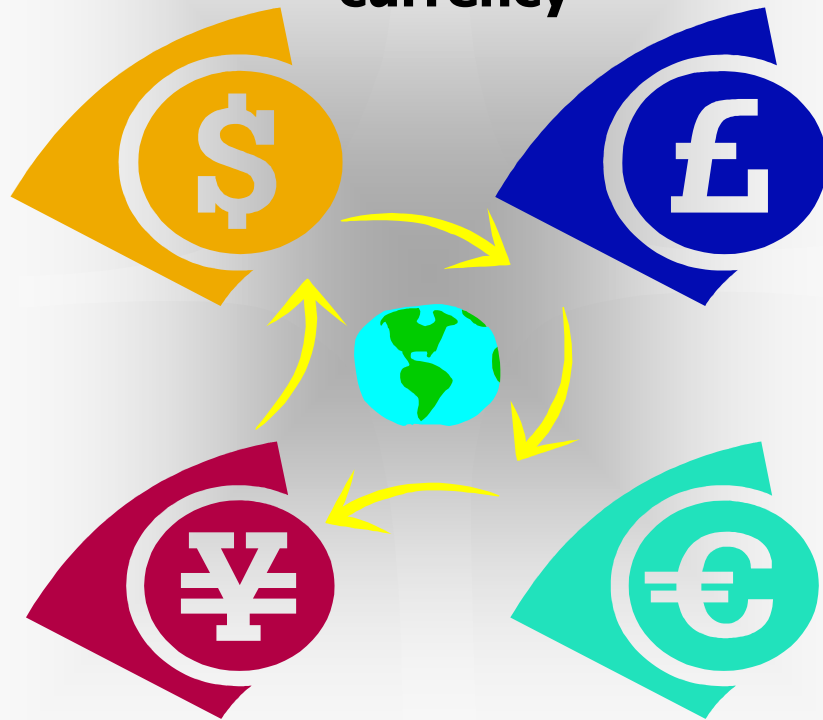


Regulatory controls or bureaucratic rules to slow imports into a country

- ❖ Inconvenient ports for imports
- ❖ Product-damaging inspections
- ❖ Understaffed customs offices
- ❖ Lengthy licensing procedures

Currency Controls

Restrictions on the convertibility of a nation's currency

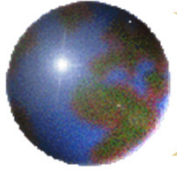


Limit the amount of globally accepted currency available to pay for imports

Set an unfavorable exchange rate when paying for imports

Governments reduce imports by stipulating an exchange rate that is unfavorable to potential importers.

Also can give exporters favourable rates to encourage exports



Arguments for Protectionism

- ✚ **Protects jobs**...protecting domestic industry will protect jobs
 - ✚ We want to protect markets that have comparative advantage
- ✚ **Protects infant industries**
 - ✚ Helps to reduce competition and barriers for certain start up industries
 - ✚ Protects national security...reduces dependence on foreign nations/products



General Agreement on Tariffs and Trade (GATT)

**Treaty designed to promote free trade by
reducing tariffs and nontariff barriers to trade**

Uruguay Round

- Extended coverage to services**

- Improved intellectual property rules**

- Reduced trade barriers in agriculture**

- Established the WTO**



World Trade Organization (WTO)

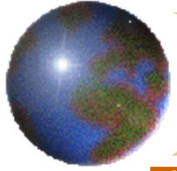
**International organization that regulates
trade between nations**

- Normal trade relations**

- Dispute Settlement Body**

- Dumping and antidumping duties**

- Doha Round of trade talks**



The Impacts of Foreign Direct Investment on Host Countries

Positive Impact

- ✚ capital information
- ✚ technology and management skills transfer
- ✚ regional and sectoral development
- ✚ internal competition and entrepreneurship
- ✚ favorable effect on balance of payments
- ✚ increased employment

Negative Impact

- ✚ industrial dominance
- ✚ technological dependence
- ✚ disturbance of economic plans
- ✚ cultural change
- ✚ interference by home government of multinational corporation