

Chapter 2

External Environment:

PESTEL Analysis

What is a PESTEL Analysis?

A PESTEL analysis is a framework or tool used to analyse and monitor the external environment factors which have an impact on an organisation. The result of which is used to identify threats and weaknesses, strengths and opportunities which can be considered or used in a SWOT analysis.

What does PESTEL mean?

PESTEL is an acronym which stands for the different factors used in analysing the impact of the external environment. It stands for:

- P** – Political
- E** – Economic
- S** – Social
- T** – Technological
- E** – Environmental
- L** – Legal

Step 1: Brainstorm your PESTEL factors

Brainstorm the factors which have an impact on the University: consider the following categories. This should be done on a piece of visible flipchart.

- **Political Factors**

These are all about how and to what degree a government intervenes in the economy. This can include – government policy, political stability or instability in overseas markets, foreign trade policy, tax policy, labour law, environmental law, trade restrictions and so on. It is clear from the list above that political factors often have an impact on organizations and how they do business. Organizations need to be able to respond to the current and anticipated future legislation and adjust their approach and policy accordingly.

- **Economic Factors**

Economic factors have a significant impact on how an organisation does business and also how profitable they are. Factors include – economic growth, interest rates, exchange rates, inflation, disposable income of consumers and businesses and so on.

These factors can be further broken down into macro-economic and micro-economic factors. Macro-economic factors deal with the management of demand in any given economy. Governments use interest rate control, taxation policy and government expenditure as their main mechanisms they use for this. Micro-economic factors are all about the way people spend their incomes.

- **Social Factors**

Also known as socio-cultural factors, they are the areas that involve the shared belief and attitudes of the population. These factors include – population growth, age distribution, health consciousness, career attitudes and so on. These factors are of particular interest as they have a direct effect on how we understand customers and what drives them.

- **Technological Factors**

We all know how fast the technological landscape changes and how this impacts the way we need to do business. Technological factors affect the way we do business in a number of ways, including new ways of producing and distributing goods and services and communicating with target audiences

- **Environmental Factors**

These factors have only really come to the forefront in the last fifteen years or so. They have become important due to the increasing scarcity of raw materials, pollution targets, doing business as an ethical and sustainable company, carbon footprint targets set by governments (this is a good example where one factor could be classes as political and environmental at the same time). These are just some of the issues business leaders face within this factor. More and more consumers are demanding that the products they buy are sourced ethically and if possible, from a sustainable source.

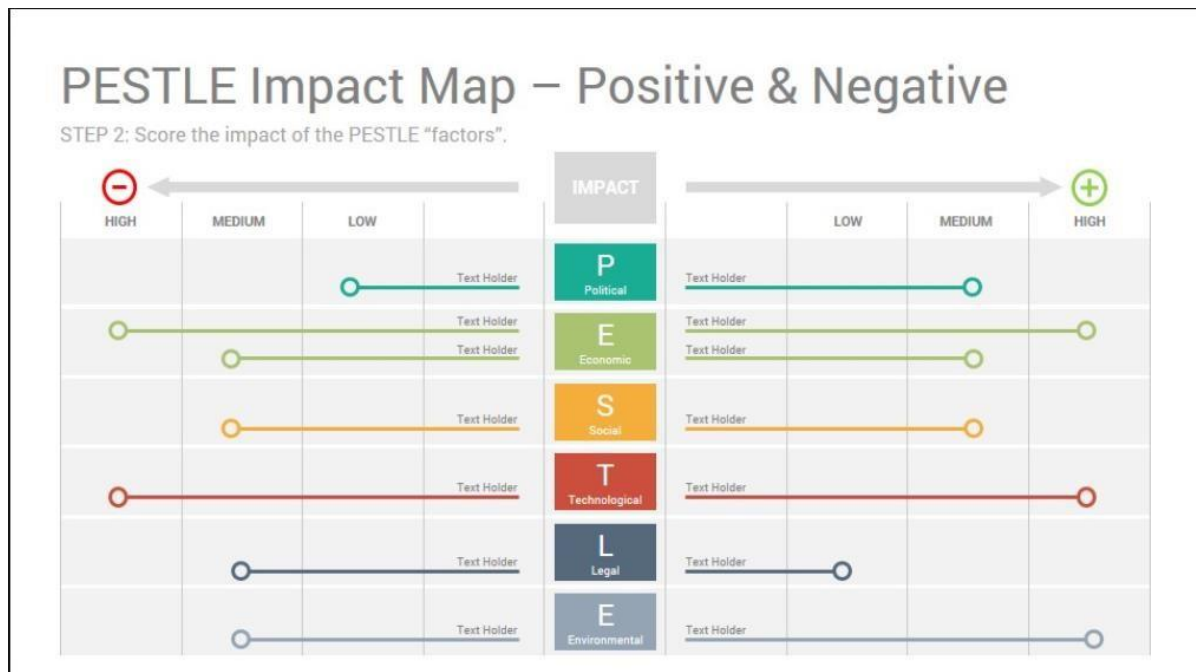
- **Legal Factors**

Legal factors include - health and safety, equal opportunities, advertising standards, consumer rights and laws, product labelling and product safety. It is clear that companies need to know what is and what is not legal in order to trade successfully. If an organization trades globally this becomes a very tricky area to get right as each country has its own set of rules and regulations.

Step 2: Analyze the positive and negative impact of the factors identified

Having brainstormed your PESTEL factors, the next step is to analyse them, identifying whether they have a high medium or low positive or negative impact.

Use the template below to 'score' your PESTEL factors, identifying those with the highest negative impact:



Step 3: Discuss how to manage the PESTEL factors

Discuss how to manage the PESTEL factors with the highest impact which are the biggest threat to achieving our strategy in your business area.

Consider:

- **Why** does any activity need to take place to respond to these threats to success?
- **What** needs to be done?
- **Who** needs to be involved in managing the factors involved?
- **When** can any risk mitigation activity take place?