

## PESTEL Analysis

### Key Points:

- The PESTEL analysis is a framework for assessing the general or macro environment in which an organization operates.
- Each dimension of the framework—Political, Economic, Social-Demographic, Technological, Environmental and Legal-Regulatory—is designed to provide insight into specific issues affecting organizational performance.
- To maintain its usefulness as an analytical tool, the PESTEL analysis should be updated and reviewed regularly by senior managers.

### Main Thoughts:

One of the basic concepts of business strategy is that organizations operate within an external environment. This environment is complex and constantly changing—sometimes with unfavorable effects on organizational performance. In order to survive within this changing environment, organizations must find a way to fit themselves successfully into it. A means of helping maintain a good fit is by assessing key variables or dimensions of the environment and then adapting the organization to those dimensions. The PESTEL analysis is a general analytical tool for helping with this process.

The PESTEL analysis is a framework for assessing this general or macro environment in which an organization operates. It consists of six key dimensions within which external environmental conditions can be assessed.

*Political:* Pertains to the interests, actions, laws or regulations of interest groups and political entities who's actions impact the operations of organizations. The activities of lobbyist groups such as in the defense sector would be reviewed here.

*Economic:* Refers to the economy and prevailing economic conditions that affect organizations. The restrictions placed on lending that have occurred during the recent recession are examples of economic factors that affect organizations.

*Social-Demographic:* Pertains to tastes, preferences and attitudes of a population, as well as its demographic factors such as population size, population age, ethnic mix and income distribution. Effects of the Baby Boomer retirement are evaluated in this area.

*Technological:* Concerns the creation, development, commercialization and diffusion of knowledge and technology and its effects on organizational processes and products. The convergence of many different types of technology tools on a single device is an example of this.

*Environmental:* Examines the changes in the physical environment and how those changes are affecting the planet. Over the past decade there has been an increasing emphasis on global warming and the impact of carbon emissions on the atmosphere. Impacts of the Green movement are considered here as well.

*Legal:* Pertains to legal and litigious aspects of organizational performance. Related to and sometimes combined with the Political dimension, but may be usefully separated depending upon the extent of legal activity in the macro environment. Class action law suits—such as the ones in the tobacco industry—are included here.

### As an Example:

The PESTEL analysis can be developed by asking—and answering—a series of questions related to each dimension. Here are examples of typical questions that can be included in the analysis:

**Table 1: PESTEL dimensions and associated questions**

Dimension	Question
<i>Political</i>	<ul style="list-style-type: none"> <li>• Who are the influential political actors at the Federal, state and local levels?</li> <li>• What are changes that will likely occur if the prevailing political party is changed?</li> <li>• What are the key issues getting attention that will affect us?</li> </ul>
<i>Economic</i>	<ul style="list-style-type: none"> <li>• What are the general economic trends we should be cognizant of?</li> <li>• Which specific aspects of the economy most impact us? How will they change in the future?</li> </ul>
<i>Socio-Demographic</i>	<ul style="list-style-type: none"> <li>• What are the major shifts in consumer/customer attitudes that affect our business?</li> <li>• How is the population changing in terms of age, income, education, ethnicity, family composition?</li> </ul>
<i>Technological</i>	<ul style="list-style-type: none"> <li>• What are the prevailing technology trends we should be aware of?</li> <li>• What disruptive forces are at work that could touch our market(s)?</li> <li>• How are related/tangent markets changing in ways that affect us?</li> </ul>
<i>Environmental</i>	<ul style="list-style-type: none"> <li>• What natural resources are used in our industry? How is their presence or use changing?</li> <li>• Are there any long term impacts of our products or services on the environment we should take into account?</li> </ul>
<i>Legal</i>	<ul style="list-style-type: none"> <li>• What type of litigation affects our industry?</li> <li>• What type of legal precautions should we be taking?</li> </ul>

**Editorial**

The PESTEL analysis is perhaps the most basic tool to examine the high level elements of the general environment. While the individual dimensions have evolved a bit over time (it used to be called the PEST analysis—Environmental and Legal are updates) the basic structure remains in unchanged. Most, if not all, texts on strategic management reference the general environment and the dimensions highlighted above.

From my perspective, the challenge of the PESTEL emerges in practice. Managers review the PESTEL framework, quickly isolate the dimensions that affect their industry and then note that they understand it. They then conclude there isn't really any point in going

through the exercise of filling out a PESTEL template as part of the strategic planning process. This is a mistake.

First, the point of the analysis isn't really to isolate and document what's happening today; it's to *forecast these dimensions and specific issues into the future*. Of course managers know what is happening today. What they really want to evaluate is, '*What is likely to be happening tomorrow?*' Second, once the future effect of the key dimensions of the framework has been created, the planning team can begin to consider the next question: '*What should we be doing today to help us prepare for this possible future?*' So in a sense, it's a miniature scenario planning tool that can be used in every strategic planning process. This is the real value of the PESTEL framework is to think through—and ultimately evaluate—future trends in each dimension to consider how they will impact the industry a company is operating in. With these thoughts in mind, it's easy to see how failing to invest time and energy in creating a full PESTEL analysis represents a major oversight in any strategic planning effort.

**For More Information See:**

Web

n/a

Magazines & Journals

Harvard Business Review  
Long Range Planning

Books

Bradford, R., Duncan, P., *Simplified Strategic Planning: The No Nonsense Guide for Busy People Who Want Results Fast*, Chandler House Press, 1999.