

PESTLE ANALYSIS FACT SHEET (CIPD)

A PESTLE analysis is an audit of six external influences on an organisation:

- **Political:** Tax policy; environmental regulations; trade restrictions and reform; tariffs; political stability
- **Economic:** Economic growth/decline; interest, exchange, inflation and wage rates; minimum wage; working hours; unemployment (local and national); credit availability; cost of living
- **Sociological:** Cultural norms and expectations; health consciousness; population growth rates; age distribution; career attitudes; health and safety
- **Technological:** New technologies are continually emerging (for example, in the fields of robotics and artificial intelligence), and the rate of change itself is increasing. How will this affect the organisation's products or services?
- **Legal:** Changes to legislation impacting employment, access to materials, quotas, resources, imports/exports, and taxation
- **Environmental:** Global warming and the increased need to switch to sustainable resources; ethical sourcing (both locally and nationally, including supply chain intelligence).

By analysing those factors, organisations can gain insight into the external influences which may impact their strategy and business decisions. It allows HR and senior managers to assess any risks specific to their industry and organisation, and use that knowledge to inform their decisions.

The term PESTLE has been used regularly in the last decade or so and its true history is difficult to establish. Various other similar acronyms have been used, including ETPS, STEP, PEST, and STEEPLE (where the extra E stands for Ethical).

PESTLE is a popular topic in HR, L&D and marketing courses in the UK as it underlines the importance of considering the impact of external forces on a range of plans for change. It can also help to highlight the potential for additional costs, and prompt further research to be built into future plans.

HOW TO DO A PESTLE ANALYSIS

When conducting a PESTLE analysis, it's important to think through and plan the process involved. This means following these steps:

- Identify the scope of the research. It should cover present and possible future scenarios, and apply to areas of the world in which the business operates.
- Decide how the information will be collected and by whom. Data gathered is often more rich in content when more than one person contributes to collecting it.
- Identify appropriate sources of information. These could be stakeholders looking for HR to address specific issues or current policies that require updating.
- Gather the information – it's useful to use a template as the basis for recording the information. Please see our practical, ready-to-use template below.

- Analyse the findings.
- Identify which of these factors listed above are most important or could cause issues.
- Identify the business specific options to address the issues, as demonstrated in the example template.
- Write a discussion document for all stakeholders.
- Disseminate and discuss the findings with stakeholders and decision makers.
- Decide what actions need to be taken, and which trends to monitor on an ongoing basis.

To be effective, a PESTLE analysis needs to be undertaken on a regular or ongoing basis. Organisations that regularly and systematically conduct such analyses often spot trends before others, thus providing competitive advantage.

WHAT IS A PESTLE ANALYSIS USED FOR?

A PESTLE analysis is often used as a broad fact-finding activity. It helps an organisation establish the external factors that could impact decisions made inside the organisation.

An organisation on its own cannot affect these factors – nor can these factors directly affect the profitability of an organisation. By understanding these external factors, it's possible to maximise opportunities and minimise threats to the organisation. Conducting a strategic analysis means scanning the external environment to detect and understand broad, long-term trends.

A PESTLE analysis is an appropriate framework and activity to use in a range of business planning situations. These can encompass:

Strategic business planning

A PESTLE analysis report is a useful document to have available when starting a business planning process. It provides the senior management team with contextual information about the direction in which the business is going, brand positioning, growth targets, and any areas or risks concerning a decline in productivity. It can also help determine the validity of existing products and services and define new product development.

Workforce planning

Workforce planning is a business process that aligns business and people strategies. A PESTLE analysis can help to identify disruptive changes to business models that may have a profound impact on the future employment landscape. Organisations are facing huge changes in their workforce from increased skills gaps, the creation of job roles that did not exist 10 years ago, and job reductions or displacement. This pace of change will only increase.

Marketing planning

As with business planning, a PESTLE analysis provides the essential element of 'climate' in the situation analysis phase of the marketing planning process. It can help prioritise business activities to accomplish specific marketing objectives within a set timeframe.

Product development

By offering insights on what's happening externally to an organisation, a PESTLE analysis can help you decide whether to enter or leave a route to market, determine whether your product or service still fulfils a need in the marketplace, or when to launch a new product.

Organisational change

A PESTLE analysis can be a powerful activity for understanding the context for change, and the potential areas of focus to make change successful. In this situation, PESTLE is most effective when used in association with a SWOT analysis to provide information about potential opportunities and threats around labour changes; for example, skills shortages and current workforce capabilities.

HR strategy, reports and projects

A PESTLE analysis can also be used as a framework for looking outside the organisation to hypothesize what may or may not happen in future. It can ensure that basic factors are not overlooked or ignored when aligning HR to the broader business strategy. It can also help in deciding what additional evidence-based research should be explored.

ADVANTAGES AND DISADVANTAGES

Advantages:

- It's 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 (of a PESTLE analysis) oversimplify the amount of data used for decisions – it's easy to use a limited selection of data.
- The risk of capturing too much data may lead to 'paralysis by analysis'.
- The process needs to be undertaken on a regular basis to be effective.
- The pace of change makes it increasingly difficult to anticipate developments that may affect an organisation in the future.
- The data used may be based on assumptions that subsequently prove to be unfounded.

PESTLE ANALYSIS TIPS

Some useful tips for carrying out a PESTLE analysis:

- Collaborate. Two heads are better than one, so an analysis that involves multiple perspectives will deliver a better outcome.
- Use any expertise and resources that are already available within the organisation.
- Use PESTLE analysis together with other techniques, such as SWOT analysis, Porter's Five Forces, competitor analysis, or scenario planning.
- Incorporate the analysis into an ongoing process for monitoring changes in the business environment.
- Avoid doing the analysis in isolation; you'll obtain a more effective result by using multiple views.
- Try not to get bogged down collecting vast amounts of detailed information without analysing and understanding your findings appropriately.
- Don't jump to conclusions about the future based on the past or present.