

Carrying Out a PEST Analysis Checklist 196



Introduction

PEST analysis is a useful tool for understanding the macro-environment in which an organisation operates. The analysis involves reviewing factors which will have an impact on the organisation's business and the level of success it will be able to achieve and may be carried out as part of an ongoing process of environmental scanning, to inform overall strategy development or to support the development of a new product or service. Undertaking a PEST analysis can raise awareness of threats to ongoing profitability and help to anticipate future difficulties, so that action to avoid or minimise their effects can be taken. It can also alert the organisation to promising business opportunities for the future. The process of carrying out the analysis will also help to develop the ability to think strategically.

Traditionally, PEST analysis has focused on political, economic, sociological and technological factors, but increasing awareness of the importance of legal, environmental and cultural factors has led to the evolution of a growing number of variants. For example:

- **PESTLE** - Political, Economic, Social, Technological, Legal and Environmental
- **SPECTACLES** - Social, Political, Economic, Cultural, Technological, Aesthetic, Customers, Legal, Environmental, Sectoral
- **PEST-C**, - where the C stands for cultural
- **SLEEPT-C** Sociological, Legal, Economical, Environmental, Political, Technological and Cultural.

This checklist focuses on the traditional four factor analysis, but it is important for managers and business leaders to consider which additional factors are particularly relevant to their organisation and to include these in the analysis.

Definition

PEST analysis is a technique used to identify, assess and evaluate external factors affecting the performance of an organisation with the aim of gathering information to guide strategic decision-making.

Framework for the analysis

To facilitate the analysis, it can be helpful to create a matrix of the factors to be analysed and the opportunities or threats they represent, as in the table below. This provides a simple framework for the analysis, but bear in mind that there will be varying degrees of overlap and interrelation between the different factors.

	Opportunities	Threats
Political		
Economical		
Sociological		
Technological		

Political factors

This part of the analysis is concerned with how the policies and actions of government affect the conduct of business. Legislation may restrict or protect commercial operations in a number of ways. Issues to be considered under this heading include:

- the level of political stability
- the legislative and regulatory framework for business, employment and trade
- the tax regime and fiscal policy
- programmes of forthcoming legislation
- the dominant political ideology.

Questions to ask:

- When is the next election due?
- How likely is a change of government?
- Is the government inclined towards interventionist or laissez-faire policies?
- What is the government's approach to issues such as tax, competition, corporate social responsibility and environmental issues?
- How do sector rules and regulations affect your business?

Economic factors

This part of the analysis is concerned with overall prospects for the economy. Key measures include:

- GDP/GNP
- inflation
- interest rates
- exchange rates
- unemployment figures
- wage and price controls
- fiscal and monetary policy.

Issues such as the availability of raw materials and energy resources, the condition of infrastructure and distribution networks and the changing nature of global competition may also be relevant.

Questions to ask:

- Is the economy in a period of growth, stagnation or recession?
- How stable is the currency?
- Are changes in disposable income to be expected?
- How easily is credit available?

Social factors

These are probably the most difficult factors to quantify and predict, as personal attitudes, values and beliefs are involved. Demographic factors such as birth rates, population growth, regional population shifts, life expectancy or a change in the age distribution of the population should be taken into account. Factors to be considered include:

- levels of education
- employment patterns
- career expectations
- family relationships
- lifestyle preferences
- trends in fashion and taste
- spending patterns
- mobility
- religious beliefs

- consumer activism.

Questions to ask:

- How much leisure time is available to customers?
- How is wealth distributed throughout the population?
- How important are environmental issues?
- What moral or ethical concerns are reflected in the media?
- What might be the impact of an unknown retirement age approach?

Technological factors

Rapid technological change has had far-reaching effects on business in past decades. Factors to be considered here include:

- investment in research and development
- new technologies and inventions
- Internet and e-commerce developments
- developments in production technology
- rates of obsolescence.

Questions to ask:

- Which new technological developments will have implications for my business?
- Where are research and development efforts focused, and is there a match with our own focus?
- How are communication and distribution operations being affected by new technologies?

Action checklist

1. Identify the most important issues

The usefulness of the analysis will depend not so much on the quantity of information collected, but on its relevance. Consider which factors are most likely to have an impact on the performance of the organisation, taking into account the business it is in and the fields where it is active or may be active in the future. Local and national factors will usually be most important for small businesses, but larger companies will need to consider the environment in any countries in which they do business, as well as the global scene and emergent competition. Information on current and potential changes in the environment should be included.

2. Decide how the information is to be collected and by whom

Check first how much of the required information has already been collected or is available within the organisation in reports, memos and planning documents. In the context of a large organisation it may be wise to consult those with expertise in specific areas and delegate to them the collection of some types of information.

3. Identify appropriate sources of information

Hard factual information, such as employment figures, inflation and interest rates, and demographics, is often easily available from official statistical sources and reference books. A wide range of additional sources, such as newspapers, magazines, trade journals, research reports, websites, discussion boards, email newsletters and social networking sites, will be needed for softer information such as consumer attitudes and public perceptions. You may also wish to consult consultants, researchers and known experts in the relevant fields to supplement published material.

4. Gather the information

Decide in advance how the information is to be organised and stored. and ensure that the required computer systems for storage and analysis are in place. Take into consideration factors such as the resources available and the personnel who will need to access the information.

5. Analyse the findings

Assess the rate of change in each area - which changes are of minor or major importance; which are likely to have positive or negative implications. It is possible that some trends will have both positive and negative effects and it will be necessary to weigh these against each other. Avoid an over-emphasis on events with a negative effect and try to identify positive opportunities which may open up. Although a PEST analysis often focuses on anticipating changes in the environment, it is also important to consider areas where little or no change is expected.

6. Identify strategic options

Consider which strategies have the best chances of success and what actions could or should be taken to minimise threats and maximise opportunities.

7. Write a report

Summarise your findings, setting out the threats and opportunities identified and the policy choices which should be considered. Use appendix to include relevant information. Preliminary recommendations for action should also be included.

8. Disseminate your findings

The results of a PEST analysis will be useful to those in the organisation who are responsible for decision making and strategy formulation.

9. Decide which trends should be monitored on an ongoing basis

Trends and patterns will have emerged from the research and it may be clear that an ongoing review of developments in these areas will be needed. Alternatively, further evidence may be required to support hunches or hypotheses which have been formed in the course of the analysis. In the case of risks, these do need specific attention and monitoring.

Managers should avoid:

- making assumptions about the future solely based on the past or the present. PEST is a diagnostic tool and many other factors should be included before reaching a conclusion
- getting bogged down in collecting vast amounts of detailed information without analysing your findings
- seeing PEST analysis as a one-off, it should form part of an ongoing process for monitoring changes in the business environment
- using PEST analysis in isolation - combine it with other techniques, such as SWOT analysis, Porter's five forces, competitor analysis or scenario planning.

National Occupational Standards for Management and Leadership

This checklist has relevance to the following standard:
Unit, LBA4: Evaluate your organisation's operating environment

Additional resources

Books

Foundations of strategy, Robert M Grant, Judith Jordan
Chichester: John Wiley, 2012

Business analysis techniques: 72 essential tools for success, James Cadle, Paul Turner, Debra Paul,
Swindon: British Informatics Society, 2011

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Analytics at work: smarter decisions, better results, Thomas H Davenport, Jeanne G Harris, Robert Morison, Boston Mass, Harvard Business Press, 2010

Business Environment, E-learn
Oxford: Taylor & Francis, 2009
This book is available as an [e-book](#).

Exploring corporate strategy text and cases, 8th ed, Gerry Johnson, Kevan Scholes, Richard Whittington
London: Financial Times Prentice Hall, 2008
This book is also available as an [e-book](#).

Business plans instant manager, David Lloyd
London, Chartered Management Institute, 2007

This is a selection of books available for loan to members from CMI's library. More information at:
www.managers.org.uk/library

Related checklists

Strategic planning (056)
Performing a SWOT analysis (005)

Internet resources

Writing a PESTLE analysis – Tools and template <http://rapidbi.com/pestle/>
A brief history of PEST and PESTLE is provided together with an introduction to the PESTLE analysis tool. Several free templates are provided.

Businessballs PEST Market Analysis Tool <http://www.businessballs.com/pestanalysisfreetemplate.htm>
The difference between SWOT analysis and PEST analysis is discussed and a free template is provided.

This is one of many checklists available to all CMI members. For more information please contact

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Revised November 2013