

pest analysis



characteristics

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|---------------|--|
| country: | United States |
| period: | 1950-1959 |
| type: | model |
| role: | consultant and manager |
| activity: | analyse |
| topic: | strategic management and marketing & sales |
| abstr. level: | environment |
| perspective: | living |
| status: | final |
| module: | classics I |
| comments: | 3 |

description:

Beginning in the 1950's, research on organisations emphasised the importance of understanding the wider meso- and macro-economic environment in which organisations operate. An organisation on its own cannot affect environmental factors, nor can environmental factors affect the profitability of an industry or an organisation. Conducting a strategic analysis entails scanning the general or macro-economic environment to detect and understand the broad, long term trends.

The PEST analysis divided the general environment into the following categories:

1. *Political*

Relates to the pressures and opportunities brought by changes of the government and public attitudes toward the industry, changes in political institutions and the direction of political processes, legal issues, and the overall regulatory climate.

2. *Economic*

Refers to a society's economic structures and such variables as the stock exchange, interest and inflation rates, the nation's economic policies and performance, exchange rates, etc. These variables impact differently on different industries.

3. *Social*

Refers to cultural attitudes, ethical beliefs, shared values, level of differentiation in lifestyle, demographics, education levels, etc. Observing social factors helps organisations maintain their reputation among stakeholders.

4. *Technological*

Refers to changes in technology that can alter the firm's competitive position. Industries merge; new strategic groups emerge; current products improve and the cost of production gets reduced by process innovation. Managerial innovation is part of the technology scan.

The categories can be further subdivided with time and geographic scope as variables.

The PEST analysis consists of five main steps:

1. *Understand a category's relevant trends*

- research the important variables of the organisation's strategy
- determine the long term trends that apply to these variables
- research the past behaviour of these variables
- analyse the predictability of the trend lines and their fluctuations
- assess the impact of these trends on the organisation

2. *Understand trend interdependencies*

- analyse which trends are interrelated
- determine which trends conflict by understanding movements in opposite directions

3. *Distill likely issues from the identified trends*

- validate the impact of trends on the organisation
- distill the most critical trends that have the greatest impact given the organisation's objectives

4. *Forecast the direction of issues*

- determine the fundamental drivers behind a critical trend
- assess the behaviour of the critical trend
- run a sensitivity test to assess impact (take -10% of your worst case scenario)

5. *Derive implications for the organisation*

- assess the affect of critical environmental changes on the industry
- assess affect of critical environmental changes on a firm's competitive position
- assess the affect of critical environmental changes on a direct competitor's position
- validate a firm's competitive position given the likely positions of its direct competitors'

assets:

 **PEST analysis**
ProvenModels • editor PM • version 0.3 • 52 KB

 **PEST analysis factors**
ProvenModels • editor PM • version 0.3 • 36 KB

pros:

- The PEST analysis is useful as input for a strategic analysis. This quick scan helps identify key factors/constraints/forces that influence a firm's competitive position and used during its planning and

factors/constraints/forces that influence a firm's competitive position and used during its planning and control process.

- A PEST analysis tries to forecast the future where one could argue that the act of predicting more important is than the outcome. A group of managers using the exercise build a shared decision making framework and a common language. Establishing the dominant drivers of change helps managers make better decisions.

cons:

- The list of factors is arbitrary. Other acronyms such as DESTEP, SLEPT and STEEP add one or more categories to the analysis, particularly Cartwright's ten segment SPECTACLES analysis: social, political, economic, cultural, technological, aesthetic, customer, legal, environmental and sectoral.
- Environmental analysis is complex. Defining the border between the organisation, its industry and the wider environment often proves difficult and is subject to individual interpretation. Historical behaviour does not guarantee future behaviour. Determining the relevant trends remains a subjective decision. In all, consistent analyses of the environment has proven difficult.
- Reading about the implications of a PEST analysis and acting on them given a common organisational mindset are not necessarily the same thing.
- Assessing and tracking interdependencies between trends is difficult and error-prone. Behaviour can be modeled through simulation increasing the cost of analysis.

references:

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