

Potential limitations of the pest analysis and how to address them

[Business](#)



A PEST analysis is widely used and carried out by corporate firms and businesses to study and understand the environment and market in which they operate. A PEST analysis offers firms a chance to evaluate their performance and improve it by analyzing external factors that influence them in the long run. Though a PEST analysis is beneficial, it has certain limitations which can overshadow the outcome. It helps companies understand and study how political, economical, social and technological factors affect them.

PEST analysis is quite effective and accurate when used as a strategic planning tool but it also has some limitations that need to be dealt with.

Limitations of PEST Analysis

External factors change over time and need constant attention and reviewing. Since external factors are based on assumptions and macro economic conditions, they are as a barrier to the transparency of PEST analysis and make it vulnerable to discrepancies. Firms might need to employ or outsource expert research & development workforce bound to the analysis and this increases expenses and costs, plus capital resources, bad assessment or weak analysis might result in losses for the company.

The analysts prepare recommendations to help the company take countermeasure decisions and also inform governments about the situation of the company. The government might help firms with subsidies and incentives that would improve their position. All this work requires an extensive team and commitment and is an important limitation if not properly supervised.

<https://assignbuster.com/potential-limitations-of-the-pest-analysis-and-how-to-address-them/>

Environmental changes might also affect the business and PEST analysis and then PESTLE analysis needs to be carried out in detail to prevent uncertainty.

PEST analysis requires expertise and experience from the people involved in the study plus extensive research and knowledge for the results to be accurate. Firms need to invest highly in R&D for the outcome to be according to the findings of the analysis. Firms need to bear the expenses and costs of the resources involved in the analysis, depending on the nature and complexity of research.

More limitations of PEST Analysis

- For a PEST analysis, a simple presentation is not enough to judge and understand the problems faced by the company. The simple list might be deceiving and project a weak perspective of the factors. Unless the factors are examined closely and studied in terms of the degree of impact, the research and findings might not be of value.
- Research and analysis requires resources and time. Gaining access to extensive external data and information can be a long and tedious task depending on the complexity of the factors. The reason why a company outsources PEST analysis is because of this reason only that it cannot provide resources. Obtaining data from external sources requires effort and patience plus capital to progress. The company might still not get complete details and information of the factors, plus the results must be incorporated within the final product.
- A PEST analysis is based on assumptions and predictions because it is not possible to collect all the necessary data and analyze it and make

decisions based on it. Limited data from external agencies is not easy to filter and this is why firms employ experts to do this work instead. It is risky and in the end, the firm's policies and decisions results in success or failure.

- The results and outcome can be subjective since the analysis is based on data which changes every day. The interpretations vary from company to company and it's important to have a dedicated organized workforce involved in the research or else the company would suffer huge losses if the study is misinterpreted.

Even more limitations of PEST Analysis

- One of the most significant limitations of a PEST analysis is its implementation and priority of the factors. With extensive detailed information, it gets confusing to decide which factor is critical and needs to be dealt with first. Hence, priority becomes a problem and creates further implementation errors. This ambiguity in prioritizing and managing the factors can cause damage to the whole research and the company might end up planning wrongly.
- Political, Economical, Social and Technological factors can backfire and companies can be helpless if the economy is unstable and there is political unrest. In these situations, companies can't do anything and carrying out a PEST analysis will not be successful.
- After analysis and research, the companies should study the present situation of unemployment, inflation, income levels, government policies and labor laws before implementing the strategy based on

PEST analysis. The company has no control over these factors but they will influence its operations.

- A PEST analysis is not feasible and is insufficient for strategic planning since it focuses on the external factors more than internal factors. Both internal and external factors are important for a competitive scenario. For strategic planning, a PEST analysis should be combined with a SWOT analysis for better results.
- A PEST analysis is not suitable for all firms. Firms in different industries use different tools and analysis depending on their target market and environment.

Conclusion

PEST offers a comprehensive technique for carrying out an environmental external research for a project. However, its accuracy and effectiveness depends on the data collected, timely updates and surveys to accommodate changes and the use of additional tools that can trim down the limitations of a PEST analysis to some extent. It guides the companies to improve performance. SWOT analysis is considered the best because it focuses on internal and external factors both while PEST only focuses on external factors.

Still, SWOT does come with its limitations itself.

Some top companies, like Ford, Microsoft, and Sony, prefer a monthly analysis as their markets are expanding and growing every month and they consider the internal factors important. Limitations of the PEST analysis don't make it less effective or weak. It depends on how companies apply it, but the <https://assignbuster.com/potential-limitations-of-the-pest-analysis-and-how-to-address-them/>

factors that affect the companies are uncertain and require attention. It is not a onetime research and analysis process. PEST analysis needs consistency for it to be effective and for that companies need a responsible and effective team.

Image: Olivier Le Moal/Shutterstock. com