

Pestle analysis factors

[Finance](#), [Financial Analysis](#)



The external environment may be analysed using the following:

PESTEL involves analyzing the external environment by focusing on:

Political environment where government legislation may have a direct or indirect impact on how businesses may operate. For instance deregulation and privatization of public enterprises have created more competition moving government focus towards regulating the operations of such businesses rather than focusing its efforts and resources on running the business and in some instances resulting in monopolies being developed leading to inefficiencies in such large organizations.

Government also provides public and merit goods which would otherwise not be provided as private enterprises do not see these products/services such as street lighting as being a profitable venture. Protecting consumers and employees by passing laws and legislation, such as Health & Safety Laws, to ensure businesses are operating in the best interest of the people. Government manages the relations between trade unions and employers thereby providing a stable industrial climate for greater productivity of all interested parties. Government also attempts to manage any economic problems such as inflation and unemployment via its monetary and fiscal economic policies. This may also include the provision of incentives to produce particular products/services or even to locate in a particular area such as subsidies and tax breaks.

Governments are also one of the largest employers in any economy where changes in the level of government spending may influence the level of unemployment in the economy which may have a multiplier effect of

reduced expenditure by those unemployed and hence less production by other businesses which may further exacerbate the unemployment levels of the economy.

Trade agreements between the governments of various countries may also impact how businesses may operate. For instance, CARICOM/ European Union has allowed for reduced trade barriers to foster greater trade between member countries thus increasing economic growth for member countries as more trade is done between these countries. Pressure groups may also influence government by lobbying for the implementation of certain legislation which may be in the best interest of the economy as a whole.

The economic environment affects the cost of production and the future plans of businesses. Economies experiences various business cycles (recession, recovery, boom and downturn) where the entire economy may face a slump or boom that will affect the level of economic activity businesses may engage in. For instance, in times of a boom businesses may face increased demand for their output due to greater liquidity in the economy and vice versa.

One of the most important economic factors that influence economic activity is that of Interest Rates. By increasing interest rates on loans and savings it tends to have a contractionary effect on the level of economic activity as citizens tend to save more and spend less and businesses investment is kept to a minimum to replace worn out machinery rather expanding or improving the technology in the business to create economic growth. This may occur in times of demand pull inflation where there is too much money circulating in the economy, i. e. too much liquidity in the economy. The higher the level of

interest rates as compared to other countries there may be an influx of “hot money” resulting in a greater demand for the local currency and possibly an appreciation to their currency.

Another important economic factor is that of exchange rates which influences the levels of export and imports in an economy. The lower the exchange rate as compared to other nations, the greater the likelihood that people would prefer to buy the local country's exports as they would be more affordable. This would lead to higher levels of economic activity in the home country and lower levels of economic activity in the foreign countries.

Inflation is a rise in the general level of prices over a prolonged period of time which reduces the purchasing power of money leading to lower economic activity. Inflation may result from Cost Push Inflation where the cost for FOP may increase to business leading to higher prices as the supply curve shifts to the left. The other cause of inflation is Demand Pull Inflation where due to too much liquidity in the economy demand increases shifting the curve to the right leading to higher prices. The higher the levels of inflation the lower the level of economic activity thus resulting in businesses reducing the level of production and consequently the higher the level of unemployment in the economy which further reduces economic activity.

Unemployment occurs when individuals who are willing and able to work are consistently searching for jobs but are unable to find employment. This results in economies operating under the Production Possibility Curve leading to idle resources and increased cost to produce per unit of output. Three major types of unemployment include structural unemployment where the collapse of an industry may result in high levels of unemployment as other

available jobs may require different skills than what they possess currently. This may also occur when businesses are moving from labour intensive to capital intensive types of production.

Another type of unemployment is cyclical unemployment where production levels are influenced by seasonal factors such as agriculture products. It may also arise out of the normal business cycle when economies go into a recessionary period. And thirdly, frictional unemployment where individuals are between jobs. In times of high unemployment firms may have more negotiating power as they may be able to keep wages lower than in times of low unemployment where due to shortage of available labour wages may be forced upwards as in the construction boom in Trinidad during 2008-2010 where government was focusing on moving the economy to first world status by engaging in many construction projects to improve the infrastructure in the economy as growth was excessive and too fast leading to wage-price inflationary spiral.

The social environment involves changes in the population, social structures and social attitudes which would have an impact on how businesses operate. Population size and composition would demand different goods/services. For instance, a younger population may require more educational and active sporting services along with baby products. Whereas an older population may require more transport and golfing services along with more medical products for the aged.

Immigration of individuals to more developed nations in search of better standard of living has resulted in greater competition for jobs resulting in

lower wages as well as greater need for specialized markets to cater for the diverse needs of a multicultural society.

The greater number of women in the labour market has resulted in greater demand for part-time jobs and the need for takeout food, cleaning services and other household services as both genders are now career oriented.

Social attitudes as individuals are becoming more health conscious have resulted in greater demand for healthier food on the go as well as more exercising equipment or gym services together with alternatives to smoking. It has also required more ethical business practices where management needs to take into consideration the impact of their business on the environment as well as employees' health and safety on the job and balancing their work life with family life.

The technological environment has profound effects on products, production facilities and the organisation of work. New products have evolved via technological advancement such as new drugs to manage new strains of viruses and the internet which has allowed for new organizational structures such as the virtual org structure facing wider markets of unlimited size. It has resulted in labour intensive jobs becoming more capital intensive as in the case of computers replacing manual filing systems leading to new skills being required in the job market and possibly higher unemployment as it allows businesses to become more productive requiring less staff.

The ecological environment where concerns about global warming, depletion of our natural resources and endangered species of plants and animals have required businesses to become more concerned with our survival as a race.

This would impact on businesses production processes where greater concern has to be taken into account of the types of materials being used in their products from not using CFC's to non-biodegradable wrappings would result in greater costs to businesses but may also provide greater opportunities as in the case of tyre disposal.

As consumers are becoming more aware of their environments businesses are put under greater pressure by consumer boycotts and government legislation to be more ethical in the approach to the environment as it may be better for business as in the case of Mac Donald's.

The legal environment influenced by government legislation can have profound impacts on businesses operations some of which have been previously discussed. This includes consumer protection, employee protection, proper disposal of waste, emission laws from vehicles, health and safety practices at work and so forth.