



GRC essentials

Erasmus+ Programme – Strategic Partnership

Project Title: Governance, Risk management and Compliance Essentials

Project Agreement No.: 2019-1-CY01-KA202-058375

PESTLE Analysis



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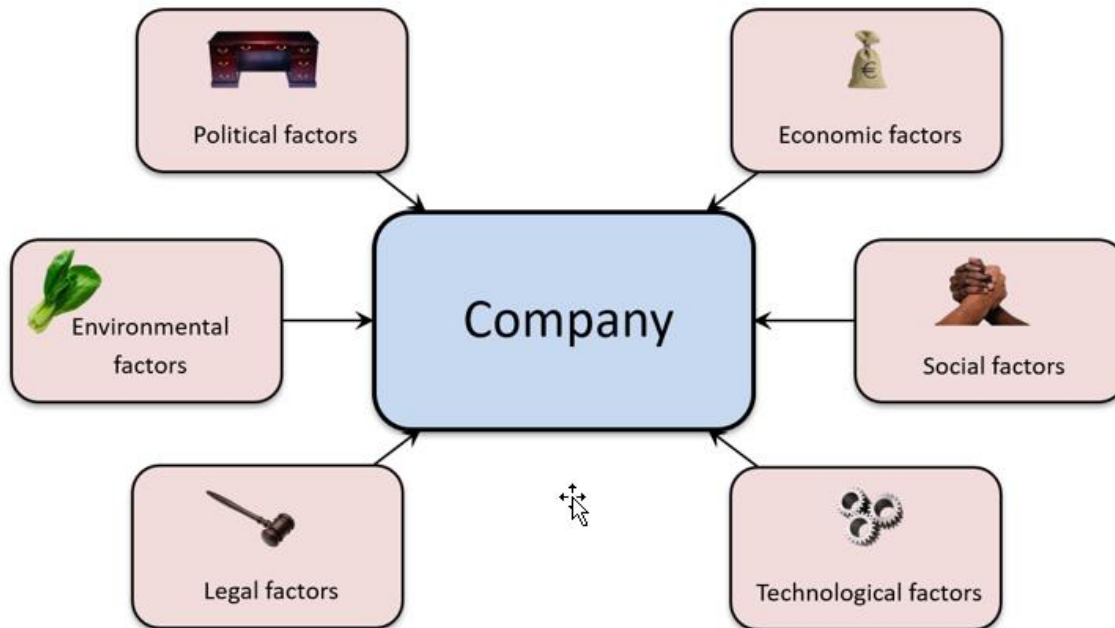
PESTLE Analysis

What it is

The PESTLE analysis is an internationally recognised method to evaluate the external factors of a company or organisation. It classifies six categories of external factors that have direct and indirect impact on a company: Political, Economic, Social, Technological, Legal and Ecological factors. Through the PESTLE analysis, you can analyse the external factors individually and systematically, and thus gain an overview of the external condition of the company. The new insights generated through the PESTLE analysis can help you to estimate the risk and reward of the ever-changing environment and support you in the long-term development of the business model. You have the opportunity to position your company ahead of the trend, thus gaining precious time for key segments such as marketing analysis and product development.

How it works

The PESTLE analysis can be displayed in this graphic:



Before you start the analysis, we recommend a research session conducted by a designated team, who can then later lead the discussion during the analysis. There is no necessary order among these six categories, however, it is





advisable to start with either the “political factors” or the “legal factors”. The PESTLE analysis can be conducted in the format of a short workshop or a brainstorming session among the staff. It is definitely beneficial to have input from all members of the staff, although the analysis can also be carried out individually at the initial stage.

In practice, it is important to prepare a few (digital) worksheets for each of the six categories. Go ahead to add more categories, in case it is necessary to extend the scope of the analysis for your company. It is also helpful to use a few indexes for a more structured analysis within each category: the direct impact and the indirect impact of each factor; the current impact and the forthcoming impact of each factor; and the various external factors that are from the local, regional, national, European, and international levels. We recommend using different colours to mark the different indexes during your analysis.

For each category, it is advisable to evaluate the importance of each factor with a scale from 1 to 5 (1 point = insignificant, 5 points = significant). Using one (digital) flipchart to collect the results of the analysis, preferably also with the help of metaplan cards. Keep in mind that external factors often interact with each other. For those interconnected factors, do not hesitate to break down the existing categories and find creative solutions to reflect on the mechanism of these factors in the analysis.

A few practical suggestions to kick off the discussion in each category:

- **Political factors:**

What are the most important political factors for your company or organisation?

Consider the following perspectives: the policies of the EU; the policies of the country in which your company resides; the policies of the region or the city; the general stability of the political environment of your location; the tax policies; the possibilities of funding and subsidies; the impact of lobby groups and initiatives; the regulatory guidelines of your sector, particularly the trading regulations; social policies and administrative regulations.

- **Legal factors:**

What are the most important legal factors for your company or organisation? Which laws or regulations affect your business model the most?

Consider the following perspectives: the relevant laws and regulations of the EU, of the country, of the region or the city where your company resides; laws and regulations concerning employment; laws and regulations concerning competition and intellectual property; laws and regulations concerning product liability; laws and regulations concerning data protection; and based on the analysis from the previous step, what legislation is currently being introduced and discussed by the respective law makers that can potentially have an impact on your company soon?





○ **Economic factors:**

What are the most important economic factors for your company or organisation?

Consider the following perspectives: the general economic condition of your country and your region; the employment rate of your country and your region; the current inflation rate; the financial prospect of the banking sector and the development of interest rates; the current exchange rates of relevant foreign currencies; the status of the supply chains and potential problems; specific taxation or subsidies relevant to your products; the circles and trends of the market, both in general and in your particular sector; and the current and potential customers and investors in your sector.

○ **Social factors:**

What are the most important social factors for your company or organisation? Which social change or social development may have a potential impact on your customers and your business model?

Consider the following perspectives: the general change in demography in your targeted area; the general distribution of income and the consumer climate among your potential customers; the trends in lifestyle, in fashion, and its impact on the customer behaviour and customer expectation; the prioritised values and highlighted characteristics in the public opinion; the mechanism and the cost of advertisement in general and in your specific sector; the development of PR work and the activities of the lobby groups; the changing focus in education and the education background among your customers; the current debate over ethical or religious issues in the society; and the public opinion over social security and cyber security.

○ **Technological factors:**

What are the most important technological factors for your company or organisation?

Consider the following perspectives: new technologies and new products on the market; new formats of information and communication; potential disruptive technologies; potential innovation in your sector; technological degree of maturity; access to alternative technologies; protection of patents; infrastructure of research and innovation; and the transformation of productivity and its impact at your company.

○ **Ecological factors:**

What are the most important ecological factors for your company or organisation? Which ecological factors you need to take into account for your company?

Consider the following perspectives: the environmental policy of the EU, of the country or region your company resides; the latest scientific research on climate change; the current and forthcoming environment requirements in your area or in your sector; the current sources of energy at your company and the potential



alternative sources; and further environment-friendly practice at your company (i.e. recycling management, waste separation, etc.).

At the end of the PESTLE analysis, document and investigate the most important external factors, and designate a team to follow up, if necessary. In order to stay informed about the external factors and the potential impact on your company, it is helpful to conduct and expand the PESTLE analysis regularly. Depending on the size of the company, it is reasonable to update the analysis every six to ten months.

Why it matters

“Change is the only constant in life”, says Heraclitus. The external environment is constantly changing, as well as new challenges and new opportunities arise. It is crucially important for a company or organisation to be well informed about the external factors and the potential impact on your business model, precisely because these external factors are beyond your own control. As a single company, you have very limited influence over these external factors. Instead of waiting passively for the change to come, it is more than necessary to take measure effectively, so that your company can develop itself ahead of the change. Based on the results of your PESTLE analysis, you can gain the precious time to position your company ahead of the trend and adjust the internal structure and strategy accordingly to deliver the right products at the right time.

The aim of the PESTLE analysis is not only the evaluation of external factors, but rather the evaluation of the risk and reward of the changing environment. The analysis will help you to understand the external environment, and to foresee the upcoming challenges. Well informed and well prepared, your company or organisation will be able to meet the challenges and turn them into opportunities of transformation.