

# PESTLE Analysis -A Perspective on Risk Management during the Current Pandemic



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## ***“If there is one thing certain in Business, it's Uncertainty”***

- Stephen Covey

The recent pandemic has taught us a hard lesson on Risk Management. Corporates are going through highly complex and dynamic environment changing at an unimaginable pace. To succeed in the VUCA (Volatile, Uncertain, Complex & Ambiguous) World, simply changing the Product lines is not enough, but Organisations may even have to transform Business Models with agility to remain in the race.

We are seeing companies being forced to rethink how they can survive and thrive in the new normal. Supply chains have been disrupted, the rapid changes in environmental forces, economic issues, and social tensions has led to huge uncertainty as a result of which Businesses are facing risk, volatility like never before. Not a single industry has been immune to the impact of the pandemic, and in many cases this will be an everlasting one.

As companies are battling out the current crisis, Leaders need to identify changes which may pose a Risk ahead and ascertain whether there is a need for a course correction in the Business Strategy or even the Business Model. This can be achieved through a deeper analysis by factoring multiple dimensions of the Change, comprehend the impact and then work out the next steps accordingly.

Some important aspects which need to be factored in our analysis, as an outcome of the pandemic-

- Political situation of the Country / Countries of operation and how it can affect the industry as well as the Organisation.
- Prevalent economic factors
- Cultural changes in the market and it's determinants
- Technological innovations likely to affect the market dynamics
- Changes in legislations that regulate the industry or that can have a significant impact on the industry and thus the organisation
- Environmental concerns for the industry

All the above aspects are important, but the intensity of impact can vary from industry to industry.

Organisations can adopt a structured approach to conduct this analysis through a technique termed as PESTLE analysis.

**PESTLE** is a mnemonic which when expanded reads as:

**P** for Political;

**E** for Economic;

**S** for Social

**T** for Technological

**L** for Legal; and

**E** for Environmental

**PESTLE** Analysis is a Business analysis tool that involves identifying and evaluating Political, Economic, Sociocultural, Technological, Legal, and Environmental factors that can

impact a Business. It gives a bird's eye view of the overall environment from many different angles that one wants to check and keep a track.

Organisations have been carrying out SWOT analysis as a basis to make strategic choices. However, PESTLE analysis is much more comprehensive. It is in these times of crisis where all the above mentioned aspects have been shaken up, that a PESTLE analysis can give a broader perspective in effective decision making.

Corporates have been deploying PESTLE analysis to formulate Marketing Strategies and devise their Annual or Strategic Business Plans. But today there is a strong case to add PESTLE Analysis to the Risk Management Framework. Adopting this approach can align Risks with the Business Strategy & build a strategic orientation to the Risk Management framework.

It gives a structured way to bring much wider variables into the Business strategy. PESTLE forces us to think about the impact of these variables or specific incidents on the Business environment. Though drawing up a PESTLE analysis may seem to be a difficult task, it is not that complex.

### **PESTLE & Risk Management:**

As Organisations are coming to terms with the current pandemic, it's high time Leaders & the Boards ask these difficult yet probing Questions to themselves:

- Do we have a Strategic approach to Risk Management?
- How much Time do we dedicate to Risk Management?
- How effective is our Risk management Framework?
- Is our Risk Management Framework aligned with our Business Strategy?

Organizations will have to anticipate the changes, its impact and be prepared with concrete plans to mitigate every possible Risk. Hence it is critical to have an effective Risk management framework. Moreover, this framework needs to be aligned with the Business Strategy. Organization may have to tweak their Business strategy to align with the new normal. Let's see how PESTLE Analysis can help in improving the Risk Management Framework.

### **Broadly, Risk Management framework has 4 broad aspects:**

#### **Risk Identification**

This is the most important step in risk management. Risk identification helps in a comprehensive understanding of the obvious as well as underlying Risks which an organization needs to address. Good risk identification will create a strong

foundation for the success of the overall Risk Management in an organization.

#### **Risk Assessment**

The second step in risk management is evaluating the impact of the risks that have been identified. Risks can have multiple levels of impact. Some may wipe out an entire business, while others can have minimal impact. Risk evaluation is the all-important step of assessing risks on a case-by-case basis to determine how significant they are in the overall scheme.

#### **Risk Mitigation**

Essential set of Actions which will need to be taken to respond to the identified risks. Being able to identify and evaluate risks is hugely beneficial but being able to actively circumvent them is how businesses gain the most value from risk management.

#### **Risk Monitoring**

All the identified risks, regardless of whether they were actively mitigated or deemed insignificant, should be continuously monitored. Risks that have already been addressed may reappear, while risks that were considered insignificant may further develop into a catastrophe.

### **Deploying PESTLE Analysis in a Risk Management Plan**

Incorporating PESTLE Analysis in the first step of Risk identification, forces us to consider a wide variety of variables in the greater business environment. It helps to uncover potential risks in areas that one may have otherwise ignored.

To understand, it would be helpful to look at how risks can be found in each of the six PESTLE categories-

**Political Risks:** Factors of a political nature which may present risks for the Business. When things change new risks may be presented and hence existing risks should be reviewed.

**Economic Risks:** Economic factors, for example, a change in interest, inflation or exchange rates could impact borrowing and spending and any financial impact is likely to be felt in spending and pricing which will apply to both customers and suppliers. These could drive budgetary changes.

**Sociocultural Risks:** People are the lifeblood of any Business, in that they always play the role of the customer in one way or another. As a result, changes in the Sociocultural environment can have a massive impact on businesses. Examples include changes in consumer eating habits, clothing preferences, or hobbies.

**Technological Risks:** Factors relating to technology are things like process automation, product or service development,

supplier, competitor and customer technology, industry innovation. Competitor's technology can present a threat

**Legal Risks:** Legal factors include both those imposed by the governance of the jurisdictions one operates in and the internal governance the company has established. Lack of understanding of the legal requirements of the jurisdictions one operates in is certainly a risk.

**Environmental Risks:** With the growing relevance of Environmental issues, businesses also need to look at these factors to identify potential risks. Risk arising from changes in the Regulatory framework.

A deep dive into all the six aspects of PESTLE can help uncover

the underlying Risks and not just focus on the obvious risks. One would be able to identify potential risks which may otherwise be missed. These six dimensions can help to understand whether there is a need for a course correction in the Business Strategy or even the Business Model due to any anticipated changes which may pose a Risk ahead.

### Plotting the PESTLE chart

The real challenge is in going back to the drawing board and start filling up the chart. To make it simpler to comprehend, you can study this sample PESTLE chart which besides other factors, captures the impact of the current pandemic situation on the PESTLE elements.

## PESTLE Chart Illustration

Political	<p>In many countries there is an Overall dissatisfaction about the Governance and manner in which Governments have handled pandemic. This can lead to political instability. Hence Governments will spend more on healthcare.</p> <p>US Presidency has moved from Trump to Biden. The economic, environmental, domestic and foreign policies of the US will undergo a change impacting the world and India too.</p>	<p>A lot of countries are unhappy with China, the origin of the Covid-19 resulting in a growing sentiment against China.</p> <p>The tensions between China and India will drive GOI policies for years to come. Atmanirbhar Bharat is impacting our economy in several ways. More of such measures are likely to follow.</p>
Economic	<p>Many companies have been severely impacted, resulting in Unemployment. Lack of availability of labor and shut downs result in lower output. Drop in discretionary spending. Only essentials. Current and projected economic growth to be impacted in the near term.</p>	<p>The Atmanirbhar Bharat policy of the GOI to incentivize local manufacturing through the introduction of Production Linked Incentives to manufacture in India. This will be available to both domestic and overseas firms willing to invest in mfg. in India.</p>
Social	<p>The restrictions in personal movement has led to significant changes in lifestyle which will take a long time to revert to pre-pandemic ways. Reduced social interaction, travel and in store shopping are some of them. Greater use of data is a significant development. Travel bans on nationals of certain countries.</p>	<p>Greater consciousness of health and hygiene issues is also promoting lifestyle changes. Consumption habits are impacted as a result.</p>
Technological	<p>Adoption of digital is touching us in myriad ways for both personal &amp; office applications. E commerce for shopping, OTT platforms for entertainment &amp; Online education. Work from home practices including conferencing solutions and increased use of automation tools to improve productivity.</p>	<p>Productivity improvement is the buzzword - At home &amp; workplace. Durables like Dishwashers &amp; products like robotic cleaners are entering Indian homes at a much faster pace. Increased mechanization of warehouses and factories will follow in a bid to increase workplace productivity.</p>

Legal	Govt. has introduced guidelines to businesses to ensure the promotion of safe health practices at the workplace. Creating opportunities for various types of offerings from access control and monitoring equipment to office and plant layouts.	Introduction of 4 new labour codes will encourage fresh investments in India. They cover the following: 1.Wages 2.Industrial relations 3.Social security 4.Occupational Health, Safety and Working conditions
Environmental	Due to movement restrictions & significant slowdown in social & economic activities, the quality of air has improved.  The Govt. is encouraging the adoption of renewable energy in order to reduce the use of fossil fuels which release greenhouse gases into the atmosphere. They are promoting EV for transport which is a major consumer of fossil fuel.	Leading Corporates are voluntarily joining the sustainable earth movement to reduce consumption of resources. This is throwing up new opportunities for businesses to cater to the needs of industry.

### Who should carry out the PESTLE

PESTLE analysis should usually be carried out by the Executive Leadership or the “C-Suite” and must be reviewed by the Board. During the review they should analyse the current conditions and talk through the impacts on the business.

### The Next Steps

Once information is collected and articulated in a structured form, the Senior team members should be asked to build Business scenarios for the future as a part of Risk Management and Strategic planning based on which the organization must optimise Business Operations, allocate Resources, deploy Human Capital and take the other critical decisions.

**Illustration:** One of the Risks which an Organisation has to ascertain is **Loss of Competitive Advantage in the New Normal.**

Whilst taking a note of this risk, one needs to look beyond and ask Questions like-

- Whether the Core Competence of the Organization would be relevant in the changed environment?  
OR
- Is there a Risk to our Competitive Advantage in the Industry?  
OR
- Are there any blind spots or are we losing out on capturing any dimensions?  
OR

- Whether any new Technology/ Trend is emerging as a competition  
OR
- Is there a substitute in the making due to any events which may or may not have a direct correlation.

Basis the PESTLE plotting, one can go deeper and beyond the obvious to answer such probing questions.

### Benefits of performing a PESTLE analysis

PESTLE analysis can be a powerful tool with far-reaching impact

- One gets to examine the drivers behind the current situation the business faces.
- A clear understanding of where the organization stands within the larger scheme of things.
- Be better prepared for unanticipated changes and minimize the impact of any unpleasant occurrence.
- Critically evaluate organizational deficiencies
- Identify Opportunities for fresh investments

It's also an useful exercise for aligning leadership and ensure that everyone in a decision-making capacity views the organization through the same lens. Thus creating a common ground for decision making. It enables the Executive leadership to select priorities and make the right choices going forward.

PESTLE analysis can help manage the Human resources as one can –

- Identify gaps between capabilities of existing talent and desired capabilities.
- Adjust roles and responsibilities.

- Make Hiring or outsourcing decisions.
- Communicate more transparently with employees about the company's vision
- Boost morale and engagement during crises

### Risk Management Committee & PESTLE Analysis

One of the key responsibilities of the Risk Management Committee is to develop a Risk Management Framework. Risk Management Committee needs to insist that the Management adopts PESTLE Analysis as a part of the Risk identification process and then the Committee has to review the outcome and render guidance for mitigation.

**In conclusion**, PESTLE analysis forces us to take a broad and granular view of all relevant externalities impacting the Organisation. With the valuable intelligence uncovered by a PESTLE analysis, one can improve:

- Risk Management
- Strategy formulation

- Resource allocation
- Market positioning
- Finances
- Reputation
- Stakeholder Management

As organisations navigate their way out of the crisis, a tool like PESTLE analysis can play an important role in deciding not just the short-term success, but also in building a sustainable Organisation thriving over the longer term.

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