PESTLE Analysis (Part-A)

As we saw before, competitive advantage can be analyzed at three levels. At the level of the firm, the industry, and the broader environment. We have so far analyzed advantages at the level of the industry. In the next segment, we will study how the external environment of an industry may be analyzed. Finally, to complete this analysis, we will study techniques for analyzing a firm's internal environment in the next module. For the moment, however, let's examine the outermost circle that is, the broader external environment. First, we need a framework for conducting the analysis. While there have been several models for analyzing the external environment, the enduring one undoubtedly is the Pest Framework.

Pest is an acronym for political, economic, social-cultural, and technological factors that can potentially influence the conduct and performance of firms in an industry. Subsequently, others have enhanced this approach by incorporating regulatory, ecological, ethics, and demographic factors into this analysis. The approach we will adopt here is that with the Pestle framework. That is adding legislative and ecological aspects to the existing pest framework. How does this analysis differ from the industry analysis that we talked about some time back? And you will see we are to visualize this is to imagine players in an industry as actors and the Pestle forces as factors. As you will surmise, eventually, Pestle forces translate into positive or negative outcomes for actors in an industry. The key questions that we ask in the Pestle analysis are

What are the key political factors influencing the industry? Which are the significant economic factors for the industry? Which social and cultural aspects are most likely to impact the industry? What technological innovations or changes are likely and how will they impact the current structure of the industry? What current or impending legislation, both domestic and international may affect the industry? And finally, which environmental considerations are most important for the industry?

To keep this discussion connected to the earlier part of the lecture, let's look at this technique against the context of the airline industry. First political factors. Political factors often have a direct impact on business by placing constraints on how a business maybe carries out or by creating new opportunities or risks. Broadly, these relate to the pressures on business brought about by changes of government and public attitudes towards industry, changes in political

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institutions, or the overall regulatory climate. A good example of this is the recent decision of the Indian government to demonetize the high-value denominations of the Indian rupee. The government's action was driven by a desire to curb the growth of illegal and unaccounted wealth, generally called black money in the Indian economic system. While a political decision, this has had significant impact on several sectors. For example, sectors that relied on large cash transactions, such as real estate, may lose out. While others such as debit and credit card companies and online payment gateways stand to benefit greatly. Getting back to the airline industry, what are the political factors that impact this industry? For one, consider pricing of an airline ticket. Airline prices are regulated in many countries. The industry can also be impacted by social disturbances, such as epidemics or terrorism. Some of you may remember the avian flu epidemic that swept across South Asia in the last decade and nearly shut down the airline industry in this region. Or consider 9/11, the attack on the twin towers which changed the security requirements in the airline industry. In fact, some studies suggest that it took nearly 5 years for the airline industry to record and return to profitability after 9/11. Another example may be the deregulation of the industry in India as well as in the U.S which lowered the entry barriers to this industry significantly.

There may be other factors such as political stability, levels of corruption and transparency, level of unionization, or formation of regional trade groups such NAFTA, or ASEAN that impact the industry. Note that this is not an exhaustive list, but rather an indicative one.

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