

PESTLE Analysis (Part-C)

The fifth set of factors are related to legislation. Legal factors are closely aligned with political and economic factors. Regulations can cover several aspects of the industry, including financial structures, quality control, service quality, requirements, pricing, and reporting requirements. These could include domestic or international agreements, antitrust, union legislation's taxation, insurance or environmental regulations, patent, and copyright etc. Once again, the airline industry's operations are significantly constrained by legislation regarding security or by bilateral air service agreements. Bilateral air service agreements determine the routes that airlines can fly, and the no. of flights that may be operated, and so on in effect driving airline traffic worldwide.

It is useful to note here that you should consider the impact of your own national laws as well as those originating in other countries that could potentially impact your industry. For example, a stringent climate control regime in the European Union put the competitiveness of airlines flying to EU from other locations such as North America or India at risk. Given that the national legislations in these countries, that is North America and India were relatively less stringent. Talking about environment always brings us to the last of the pestle factors, namely, ecological or environmental factors.

As global concerns about the declining state of the world environment increase, restrictions on airlines also increase. For example, the climate news recently reported that wind pattern altered by climate variability are resulting in longer flight times, extra fuel consumption, and increase in CO₂ emissions. In fact, it is estimated that the global aviation industry contributes to 2 percent of all human-induced carbon dioxide emissions. Potential mitigation methods include regulations and standards and market-based policies or technological improvements involving aircraft and engine performance and/or the development of alternative fuels, operational implements, and so on. All of these can potentially impact the performance and the profitability of firms in the airline industry.

Once again, note that while firms in the industry are impacted by changes in the pestle environment, they do not necessarily control these changes and can mostly only respond to it. Changes in pestle factors may necessitate changes in operating all business models, pricing or

other activities to maintain the strategic fit between your organization and the changing environment.

The key to carrying out a good analysis is to identify a few key pestle factors that are likely to significantly influence the actions or performance of the firms in your industry. Also, note that they can be interactions effects across these factors. For instance, globalization leads to increase air travel and consequently increase concerns about climate change, which in turn leads to stringent regulations, carbon taxes, or actions by special interest groups against the use of fossil fuels for transportation.

Another important thing to note both in the case of industry analysis as well as pestle is that while all the underline factors need to be analyzed, it would be counterproductive to treat this as a laundry list. As an analyst, you should prudently figure out the key factors that are likely to impact your industry's performance. Also as I said before, the analyst must also acknowledge and account for changes that may take place in the industry and the broader environment, which in turn may impact the relative importance of these actors and factors.