PEST Analysis

Authors
Sammut-Bonnici T., Galea D.

Reference this article

Abstract / Definition
PEST is an acronym for four sources of change: political, economic, social and technological. PEST analysis is a powerful and widely used tool for understanding strategic risk. It identifies the changes and the effects of the external macro environment on a firm’s competitive position. Strategists seek to understand external factors and evaluate how business models will have to evolve, in order to adapt to their environment. The impacts of external factors are mitigated through pre-emptive strategy and new opportunities are exploited in the wake of new competitive positions that may be created in the process. PEST analysis is used in conjunction with SWOT (internal strengths and weaknesses, external opportunities and threats) and Porter’s five forces model (encompassing the external effect of suppliers, consumer demand, new entrants, substitute product and competitive rivalry). PEST analysis works best when the environmental factors are analyzed from the perspective of the firm’s resources, capabilities and core competences. The process involved in exploring a firm’s external macro environment involves five main stages: identifying PEST factors, analyzing possible effects on the firm, categorizing into opportunities and threats, prioritizing factors and developing corrective or preemptive strategic action.

Keywords
PEST, external environment, macro environment, SWOT analysis

Link to publication