

Strategic Thinking — “PESTEL” and “RBV” Paradigms

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[updated: Monday, April 1, 2013]

Course: MGT 360

Title: Management and Organizational Behavior (3 units)

“Whenever a theory appears to you as the only possible one, take this as a sign that you have neither understood the theory nor the problem which it was intended to solve.”

---Karl Popper (1902-1994)

“[At General Electric]...an individual has to make the numbers and live the vision.”

---Jack Welch (1935-)

Purpose

The purpose of this document is to help clarify the distinctions between two dominant paradigms important in the life of a manager. A paradigm is a collection of theories, models, and frameworks that guide the theory and practice of a discipline. Often, management in general, and successful management interventions specifically, lie at the *intersection* of two or more academic theories and/or two more professional practices. In particular, the proper application of organizational behavior concepts requires a deep understanding of multiple, and often competing, theories.

Comparing and Contrasting the two Paradigms

As used here, “PESTEL” means a strategic analytical framework consisting of “Political, Economic, Sociological, Technological, Environmental, and Legal”. In principle, PESTEL is everything major *outside* of the organization. As used here, “RBV” is a strategic analytical framework called “Resource-Based View” which measures, among other things, value, rarity, inimitability, and non-substitutability of an organization’s use of its labor and capital. All categorizations below are overly general and overly summarized. Reference to other source materials is beneficial. The learning outcome for a survey course such as MGT 360 is less about academic precision *per se* and more about developing future managers that embody trans-disciplinary breadth and situational depth.

Taken together, an understanding of the theories and applications of both perspectives within a contemporary organization might be labeled a “value network.” A successful manager understands the rigor of each perspective, and in turn applies the relevant approaches from each perspective to each strategic issue. This is easy to say on paper and hard to do in practice. So, we practice.

Concept	“PESTEL” Analytical Paradigm	“RBV” Analytical Paradigm
Academic Discipline	General Education (<i>required</i> for all Univ. students)	Management (<i>required</i> for Bus. Students, <i>elective</i> for some others)
	“many college-education students will become managers”	“many Bus. students will have P&L responsibility soon”
Worldview	<i>Market</i> -orientation resulting in <i>efficient</i> allocation of (often scarce) resources	<i>Network</i> -orientation resulting in <i>effective</i> leverage of (occasionally abundant) resources
	“a firm is an organ of society, therefore society ultimately measures it’s benefits”	“it’s organizations that ultimately create value by innovating and delivering”
Chief Critique	RBV theory is interesting, but it must be shown to lead to market or organizational efficiencies	PESTEL theory is interesting, but bounded in practice because of limited perfect information.
	“if the organization isn’t sustainable on an on-going basis, there won’t be a need for (happy or unhappy) employees”	“organizations that are successful in the market can still have many unhappy employees”
Value Creation	Analysis external market first, internal capabilities second	Analysis internal capabilities first, external market second
	“we have to know—intimately—what are customers want ”	“we lead our market—our customer don’t know what they want until we sell it to them”
Key Structural Artifact	Relative relationship between P.E.S.T.E.L. (and competitive intelligence)	Relative relationship between V.R.I.N. (and structural competencies)
	“we survive by being more adaptive than others to the external environment”	“we flourish by being more creative than others using our resources within our control”
Nominal Unit of Analysis	Society	Organization

	“What do others outside of our organization think?”	“Did we do our best?”
Key Measurement Assumption	Public financial statements; stock price (<i>technical analysis</i>)	Tacit knowledge; core competencies (<i>fundamental analysis</i>)
	“assuming we can get the data, we can <i>compare</i> the results of one firm with the results of others”	“it’s the contrasts in skills, knowledge, and abilities that build distinctive competencies”
Key Analytical Technique	Simple random sampling of similar organizations	Deep, focused interviews with managers
	“objective probability is idealistic and aggregates well at the macroscopic-level”	“objective probability is makes too many unrealistic assumptions realistic; we need to simplify well at the microscopic-level”
Manifestation of Utility	Endeavor to make <i>implicit</i> preferences <i>explicit</i> (distinguish between “needs” and “wants”)	Some implicit preferences cannot be explicated (“you know more than you can describe”)
	“it’s the synthesis of the P.E.S.T.E.L” that describes the world accurately and consistently”	“P., some parts of S., and E(nvironmental) either can’t be measured well or have poorly-defined stakeholder groups”
Medium of Consideration	Pecuniary units are always tangible	Expectations are often intangible
	“Does this transaction result in a net benefit (for a firm, chiefly economic) and increase the chances for organizational survival?”	“Does this transaction result in an increase the mutual trust among parties (for a firm, employees) and increase the chances for organizational survival?”
Method of Evaluation	Quantitative (measured in numbers) benefit-cost analysis	Qualitative (measured in words) benefit-cost analysis
	“What is the return on investment?”	“What is the shape of the learning curve?”

Study Approach	Analytic (deductive and inductive reasoning)	Synthetic (constructionist and critical reasoning)
	“first, understand society; second, produce value; third, evaluate results; fourth, use new value to wealth gain, repeat process”	“first, understand competencies; second, design value; third, assess outcomes; fourth, use new value continuously improve competencies, repeat process”
Target of Explanation	Prediction	Understanding
	“What will a similar future event look like?”	“What are the factors involved?”
Assessment of Stability	Equilibrium	Equitable
	“the market—via a balance between all elements of P.E.S.T.E.L.—indicates that this firm’s production environment is maximally efficient”	“an organization’s culture indicates that this environment is optimally desirable”
Relationship Perspective	Evaluated by History	Evaluated by Future Generations
	“most societies outlive most organizations”	“a successful organization outlives its founder(s)”