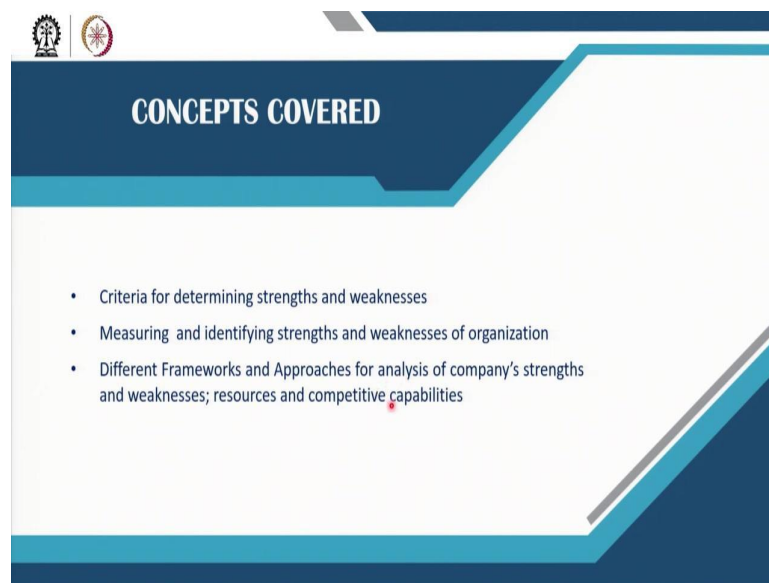


Strategic Management for Competitive Advantage
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Lecture 08
Framework for Internal Analysis of Firm - I

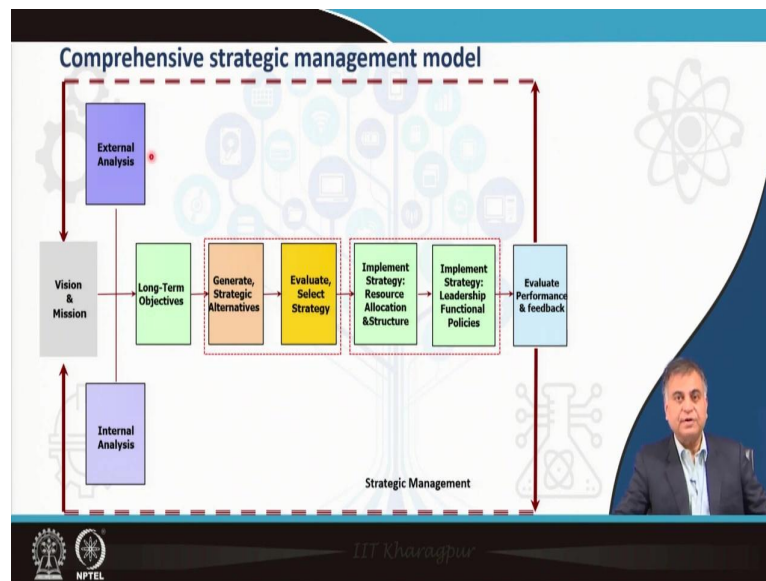
Welcome to the class of Strategic Management for Competitive Advantage. In the previous lecture, we covered module three, which was about Competitive Analysis. Today, we will be covering module four, which is Internal Corporate Analysis.

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First, we will go through the concept covered. We will be doing criteria for determining strengths and weaknesses, measuring and identifying the strengths and weaknesses of an organization. Then, we will be doing different frameworks and approaches for analysis of the company's strengths and weaknesses, resources and competitive capabilities.

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So, (first to let you know), you are aware of this diagram, we have talked about this diagram before, this is nothing but the strategic planning processes under strategic management. First, we start with the vision and mission statement, then we do an external environment analysis. This we had covered in our previous lectures and as part of external environment analysis, we have also covered the competitive analysis that is part of those external environment.

So, today we will be covering this internal corporate analysis, why do we do the internal corporate analysis? This is done to know the strength and weaknesses of an organization because unless you know the strength of the organization you cannot take that competitive advantage. Competitive advantage comes through your strength, through your distinctive competencies and also you must know what are your weaknesses. This is because your competitors will attack you on that weaknesses to get the competitive advantage. So, you have to identify the weaknesses and try to overcome those weaknesses and this is the internal corporate analysis. We will be discussing all those (internal corporate analysis) things. So, you are familiar with these processes, today we will be doing internal corporate analysis.

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4. Internal Corporate Analysis

- Criteria for determining Strengths & Weaknesses
 - Historical
 - Normative (e.g. load factor)
 - Competition Parity (e.g. credit policy)
 - CSF (e.g. TV ad)

Which criteria to be used?
- Measuring Strengths and Weaknesses
 - Attribute (e.g. motivated workforce, decentralized control)
 - Effectiveness (e.g. fitness plan, plant location)
 - Efficiency (e.g. wastage rate)

Which measure to be used?

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Now, suppose you want to know your strengths and weaknesses, (so) how do you go about it? The first thing that comes to mind is how you determine? What should be the criteria for determining the strengths and weaknesses? So, you must have to fix those criteria, because determining strengths and weaknesses is not that very much easy since all strengths and weaknesses are not measurable. There are many things in management, here for corporate strategic planning may be the conceptual things, which are very difficult to measure. So, what should be the criteria for determining strengths and weaknesses, we must fix it up. So, this way it is suggested that there are four criteria for determining the strength and weaknesses of an organization. So, of these criteria, one is the historical criteria. What are historical criteria?

Historical criteria compare your decision variables, (decision variables) with your past performance i.e., historical performance such as your sales volume, revenue generated, profit, net worth, capacity utilization, etc. Decision variables, you measure it with your past year's performance and if your performance is better than the past performance, then you can say it is your strength, in contrast, if it is below the past performance, then it is a weakness of the organization.

But (here), there is a cautionary, while measuring against the past performance, you must find out the relevancy, the applicability, and the replicability. Suppose your business is in the introduction stage or to the growth stage, then (what happens), you are in a growth mode. So, if you compare it with your past performance, it would be misleading because, in the growth stage, you are supposed to grow high. So, it will give you a misleading picture. But if your

business is in the maturity stage, then it seems to be relevant and applicable. Again, if your business is in a declining stage, then what happens? If you measure it with past performance, it will give you misleading results. So, you must be aware of the applicability and replicability of this. That's about historical criteria.

Then comes the normative criteria. What are normative criteria? Normative criteria are based on the theory, experts' opinions, industry practices, and personal opinions. In fact, what ought to be the level of performance, and what ought to be the norms, are the normative criteria. For example, suppose in a power plant, the average industry load factor is 95 per cent, then anything above 95 per cent is a strength, and anything below 95 per cent is a weakness. So, these are the normative criteria - generally fixed. Basically, it depends on the industry average, experts' opinions following the above-mentioned concept.

So, next is the competition parity criteria. What are competition parity criteria? This is - you compare yourself (Co.) with your leading competitors or the potential competitors or the successful competitors, or your direct competitors, whichever is applicable. You take those competitors, whom you wanted to fight with and follow the minimum attainable criteria as set up or achieved by them.

For example, suppose your direct competitors, are giving a credit policy of say, 45 days. So, anything below 45 days credit policy will be considered a weakness for you. So, anything above that will be a strength for you. So, you measure these against your successful or immediate competitors.

The last one is the critical success factor criteria. We have discussed in the last class that the route to competitive advantage as suggested by Ohmae, one of the routes was focusing on critical success factor. So, if you do not have many operational resources or other resources, what do you concentrate on? You concentrate on the critical success factor and with those critical success factors, you must have a minimum performance standard compared to your competitors.

So, you must reach that minimum standard of performance for the critical success factor. For example, say electronics consumable industries or the FMCG industry. One of the critical success factors is say, TV advertisement which is part of promotion and sales. So, suppose a company cannot afford to go for TV advertisement, because they do not have that much cash

or the resources. So, it may be considered a weakness. So, this way you can find the strength and weakness criteria. These are the four main criteria.

Now, which criteria are to be used and when? Naturally, the question arises. So, it is said that a single criterion is seldom used because when you are finding out an organization's strengths and weaknesses, one criterion or two criteria are insufficient. You may require all the criteria, for example, historical criteria may be more appropriate for finance, and production. Because here the historical criteria and the competition priority criteria, may be relevant for the finance, and operations.

But for marketing, it may not be that suitable. In marketing competition parity criteria and critical success factor criteria may be more appropriate. Suppose, the management functions or organization as a whole, then you go for normative criteria. This normative criterion is generally for - what is the management (organization) culture? What is the organization's performance? What are the organization's values and climate? What is the management style of working? All these are softer variables, shared values. So, these are the four suggested criteria for determining the strengths and weaknesses of an enterprise.

Now, after fixing up the criteria, next, what do you do? So, after fixing up the criteria, you have to measure the strengths and weaknesses. You know, most of these things are subjective measurement, few are of course measurable i.e., efficiencies are measurable. I will be talking about these all within a few minutes.

The measuring for strengths and weaknesses, suppose someone says, we are strong on some criteria and weak in some. But how strong? Those strengths vary from person to person, what is very strong to you may not be that strong to another person. So, you have to fix some measurement criteria. So, how do you do that? One suggestion is to measure the attributes. What are these attributes? You identify and measure certain characteristics of your organization, without attaching a unit of measurement. For example, suppose, you say, you have a very motivated workforce. Or, you say our biggest strength is - our workforce has high morale and is highly motivated. So, what you are doing? You are identifying some characteristics, without attaching any measurement of unit. Similarly, you can say, our weaknesses is, that we have a decentralized controlling system; these are called attributes measures.

Then another is the effectiveness measurement. Here, you identify the capabilities of an organization, which helps you to accomplish certain tasks or certain objectives. Suppose, for example, you say that we have introduced a new fitness plan for our managers. And in this fitness plan, within the office, they can do some treadmill and gym-like workouts. It has resulted in, executives putting an average of one-hour extra time in the office. So, it is effectiveness, it is measuring certain capability. Similarly, you can say, our plant location -since it is away from the city and away from the market, so, it demotivates our salespeople to visit the market too often. So, it is a weakness. So, these are called effectiveness measurement criteria.

Then lastly, there is efficiency measurement. It is a measurement of functional efficiency that can be measured directly. In fact, efficiency is measured for functional activities. So, it is a part of measuring the productivity of the organization.

Suppose you say, our wastage of material, rate of wastage of material is 5 per cent. So, you are signifying it is a weakness. So, we have to improve it, we plan to improve it to 1 per cent wastage of material. So, you are measuring the efficiency which is linked to your measurement of productivity. So, there are three types of measurements that we discussed.

Now, which measures are to be used and when? Naturally, this question comes. So, in fact, the attribute measures are done for the higher level. You know, those soft variables like shared values, management functions, and strategic planning process come in the attribute. Say, organization culture, organization values, these are the attributes and some of these overlap in effectiveness. Effectiveness is also at a macro level, it takes the organization as a whole, it does not talk about the functional level, but organizations as a whole at that top management.

So, these are for the higher levels and for functional things. Generally, the efficiency which can be measured easily is used for efficiency and functional support.

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4. Internal Corporate Analysis

- Identifying Strengths and Weaknesses
 - Ask questions (e.g. Exec., experts, suppliers, customers – survey)
 - Observations (e.g. work culture, leadership style, participation)
 - Examine Records

Which method to be used?

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Then next, after measuring this, we have to identify the strengths and weaknesses of the organization or the enterprise. How do you identify that? We identify that by a few approaches; one approach or method is asking questions i.e., you are questioning the people. Whom to ask questions? So, you fix the people who are the important stakeholders who have a strong interest in the organizations such as executives. You ask executives, experts in the field, experts within and outside the organization, suppliers, and customers. They (supplier and customers) are from the outside and will give you more reliable information. So, you ask questions, how do you ask questions? You ask through a survey; you have to do some survey. This survey can be structured and unstructured. And preferably you do the structured surveys when you are dealing with top executives or experts. Suppliers and customers are also surveyed either through the structured survey or informal interviewing and informal discussion. These are also the potential routes for identifying strengths and weaknesses, this is by questioning people.

The second way to do that is through observations. Like an analyst, an analyst observes the working of the organizations. What do you observe? You observe the work culture of the organization, how is the leadership's style? How the decisions are made in a meeting? Who talks more in the meeting? How do they arrive at a decision? Whether it is a participative decision or is thrust down from the top?

So, all these things, if you observe, you can find the leadership style. Then the participation of the people, if you go to an organization, different organizations have different cultures. So, even with a simple handshake, you can make out the organization's culture. Again, in some

organizations, you will find people in the morning who shake hands and you can make out whether it is a warm handshake or a lukewarm handshake. This can be identified through only two-three finger touches (handshake).

So, you can make out through observations, the organization's characteristics and strengths and weaknesses. The analyst as an outside observer can readily find all these.

Then examining the reports, these are also a very potential way for functional activities. Like if you have the past performance data, usually say sales performance, marketing performance, capacity utilization, or the rejection rate of the materials. You can examine that and find out what is your inherent strength and weakness in the organization. Examining records is a very powerful strategy for your functional activities.

So, these are the three approaches for identifying strengths and weaknesses. Which method to be used? As I told you earlier, these are - by examining records, observing, and asking questions. There may be higher - as you know, softer variables, management functions used for different purposes. So, these are the ways for identification of strengths and weaknesses of the organization.

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4. Internal Corporate Analysis

➤ Conceptual Approach to analyze Strengths & Weaknesses (Bates and Eldredge)

Strength and Weakness Profile

Dimension	Basis of Comparison	Ranking	Existing	Strengths or Weaknesses
Management		1, 2, 3, 4		0, ++, ++, ++
Financial				--, --, --
Operations				

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Next, we will be talking about the conceptual approach to analyzing strengths and weaknesses. There may be many frameworks but how do you find out your strengths and weaknesses in your organizations? So, one of the approaches was suggested by Bates and Eldredge. What does it say? Bates and Eldredge suggested three dimensions the analysis of management dimension, analysis of financial dimension and analysis of operations dimensions. What are these management dimensions, as I told you it is higher levels of things, say Resource deployment which is the critical success factor.

Then it may be the organization's culture, organization's management style, or organization climate, or it may be strategic planning process. So, these are all management dimensions you analyze and add many more. Then another one is the financial dimensions. What is this financial dimension? The financial dimensions - you do is the analysis of sales, revenue, profit, net worth, employee, capital structure, capital budgeting, then what is your debt policy, dividend policy, credit policy, and working capital policy. So, all these are the financial dimensions and you analyze those to find out your strengths or weaknesses. And the last one is the dimensions of the operation; operations dimensions are basically the functional areas like conversions or transformations of raw material to the final product - that is the operation.

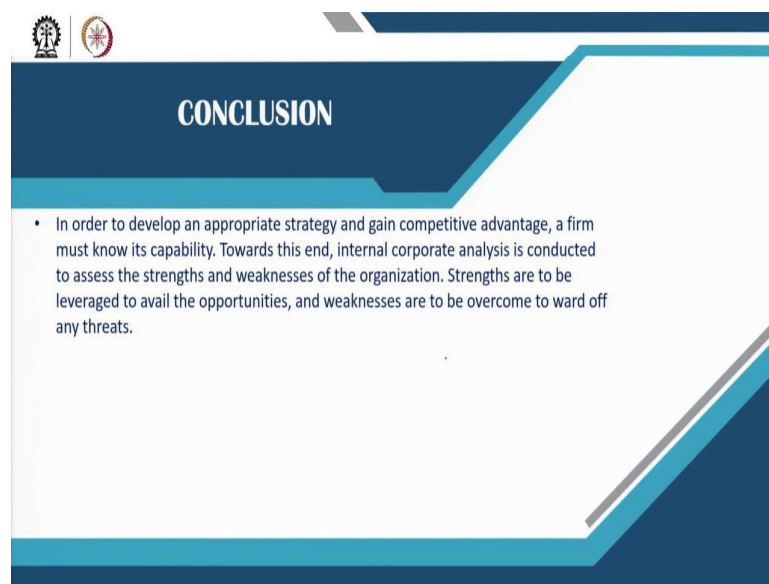
Similarly, there may be engineering operations, R&D operations, supply chain management operations, marketing operations etc. So, all these functional areas you dissect and find out what is your strengths or weaknesses. So, how do you do that? Bates and Eldredge suggest You must identify and inform the analyst what are the basis - the analysts are employing or

doing the work on and what is the applicability of that. Then you find out the ranking, what is this ranking? The ranking is, you do the relative importance of these factors, you know, relative importance like you put rank 1, 2, to all the factors. So, this gives you the relative importance of the factor say, the number one ranking will be your critical factor followed by the number two ranking (say) that will be the next critical factor.

Then existing, what is existing? Existing is nothing but brief descriptions of the current affairs. Then you find out the strengths and weaknesses. Generally, the strength and weaknesses are written in a code, say, code 0 is neutral - the factor is neutral. Also, you can put it plus, plus means it's a strength, then if it is another plus, it implies a very strong plus or stronger strength.

Similarly, minus is your weakness, minus minus is very weak. This way, these codes denote your strength and weaknesses. This has been suggested by Bates and Eldridge. We will be discussing further on this in the next lecture.

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So, I will just summarize what we have discussed till now, to develop an appropriate strategy and gain competitive advantage a firm must know its capability. So, for this we are doing the internal corporate analysis and this internal corporate analysis is done to determine the strengths and weaknesses of the organization. So, that strengths are to be leveraged to avail the opportunities to get their competitive advantage and weaknesses are to be guarded for overcoming the threats.

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These are some of the references you should go through for enriching your knowledge further. So, with this, we will be completing this lecture today. We will be carrying on from here the next lecture. We have not completed this module yet. Thank you very much for attending.