Strategic Management for Competitive Advantage
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Lecture - 09
Framework for internet Analysis of Firm - II

Welcome to the course Strategic Management for Competitive Advantage.

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So, in the last lecture, we were talking about the Framework for Internal Analysis of Firm. Now, we will be continuing with the remaining part of the lecture which we could not complete in the last class.

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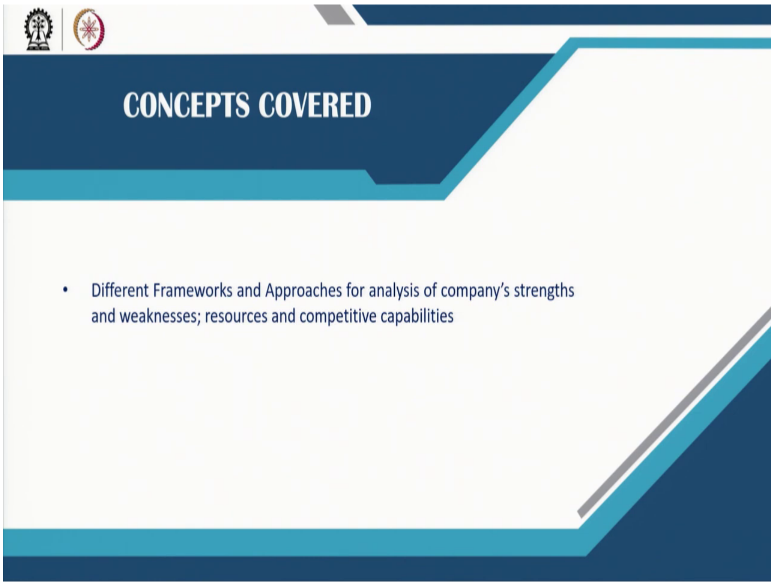

So, the concept that will be covered in this lecture – are the different frameworks and approaches for analysis of the company's strengths and weaknesses; resources and competitive capabilities. So, this will be discussed further.

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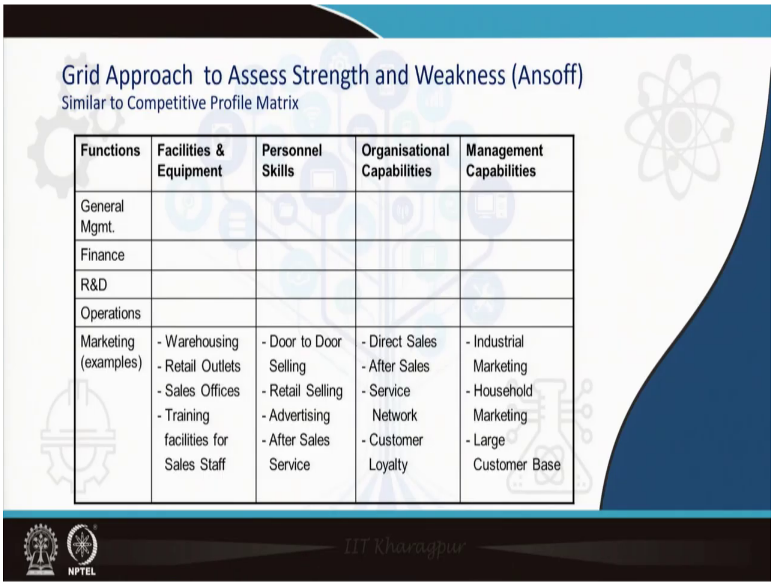

Functions	Facilities & Equipment	Personnel Skills	Organisational Capabilities	Management Capabilities
General Mgmt.				
Finance				
R&D				
Operations				
Marketing (examples)	- Warehousing - Retail Outlets - Sales Offices - Training facilities for Sales Staff	- Door to Door Selling - Retail Selling - Advertising - After Sales Service	- Direct Sales - After Sales - Service Network - Customer Loyalty	- Industrial Marketing - Household Marketing - Large Customer Base

So, we have seen the Bates Eldrege framework for analysis of management dimensions, dimensions of finance, and operational dimensions. Now, there is another approach. This is called the grid approach to assess the strengths and weaknesses of an enterprise. This was suggested by Ansoff. I think we have discussed it, when we talked about the competitive analysis, in that we have seen that this is the same framework that was developed by Ansoff. At that time, we had done the strengths and weaknesses, we measured them for our competitors. The same grid we also can deploy for our internal organization, for finding out the strengths and weaknesses in order to get a competitive advantage.

So, I will just quickly go through it as we have already covered it. These are the rows which denote the different functional areas, then these columns are distinctive capabilities for facilities, equipment, personnel skills, organization capability, and management capability. Now, you go to each and every function and find out your strengths and weaknesses. As for marketing, we have given this example, marketing say facilities, equipment, warehousing, retail outlet, sales. Similarly, for personal skills, door-to-door selling, advertising, and after-sales service. The organizational capabilities- are direct sales, customer loyalty, then the management capabilities. It is similar to that; you also employ in your own organizations to find out your strengths and weaknesses. So, we go quickly to the next.

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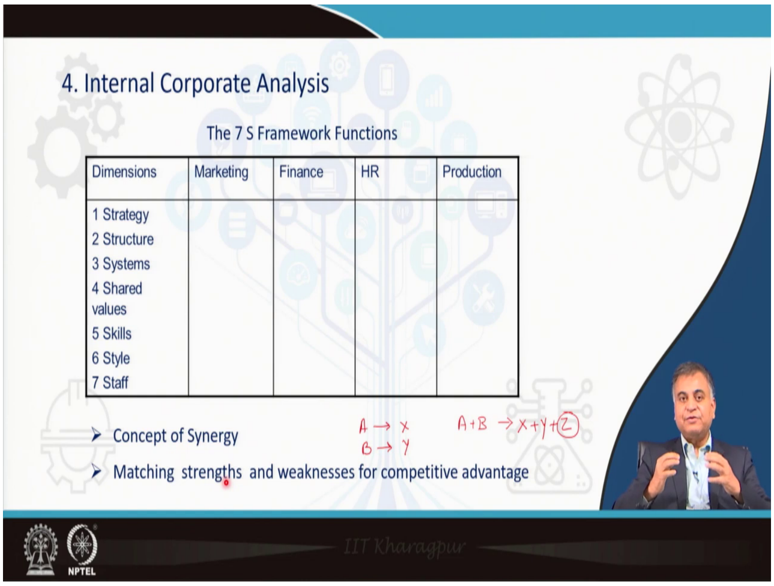

This is called the McKinsey 7 S framework. It includes 7 factors, namely, strategy, structure, system, shared value, skill, style, and staff. These are the factors that you find out as a diagnostic tool to identify an organization’s strengths and weaknesses. In fact, this was developed by McKinsey consulting firm in the late 1970s. We will discuss the 7 S framework when we will be going for the module on strategy implementation.

Therefore, we will not discuss much about it now, but the only thing we can say is that you must be aware of these 7 S factors. You can use it as a diagnostic tool to find out the internal strength and weaknesses of the organization so that you can take appropriate measures to gain competitive advantage. More on these we will be discussing in future. Then, after that, this is a very important concept of synergy. All of you know what is synergy. I do not have to explain to you that we are very familiar with synergy.

So, in short, we will be talking about synergy in the next module - after a few classes. So, we will just briefly touch on it like synergy as we know, is when two activities, say, activity A and B are done separately, Product A’s contribution, say, is x and product B’s contribution is y if it is done separately.

Now, if you do that combinedly A plus B then it will be, your value-added will be more than x plus y and it may be x plus y plus z. So, this z is your synergic effect. So, that is why you must have heard 1 plus 1 is greater than 2. We always say, 1 plus 1 say greater than 2, maybe 3, maybe 4. So, this is the synergy and this is if z is positive, it is called positive synergy and if z is negative, then it is called a negative synergy. Negative synergy you can often find, suppose in a merger and acquisitions, generally when you go for the acquisitions, you study the synergic effect.

So, production synergy, operation synergy, financial synergy, if all those are there you go for it. Even then, if you find it is a failure that may be a negative synergy which may be due to cultural differences of both companies A and B. It has resulted even if you have production or financial Synergy, but the cultural synergy has failed your acquisitions and the profitability has not gone up that well. So, it may be a negative synergy.

So, these are the concepts of synergy. We will talk about it later. Now, we will be going for the last one, say matching the strengths and weaknesses. What is these matching strength and weaknesses? Suppose, if you have the strength you have to take the competitive advantage for it and weakness is your threat, you have to guard against it. Now, all strengths may not be strengths, and all weaknesses may not be a weakness, why is this so? Competitive advantage, the formulation of corporate strategy is matching your environmental opportunities and the internal resource capabilities of the organization, how you can capture those capabilities?

Suppose, if you have strong cash positions, that is a strength for the organization, but if you do not invest it wisely for the growth of the organization, then it may not be a strength to you. So, having strong cash strength, you are not utilizing it. Similarly, say if you have hired very top R&D experts, you hired top technical experts for your R&D department. So, it's a strength of your organization. But if you do not have a commensurate R&D program, you are not having a product development program, then, those top scientists that you have hired will be underutilized. So, you are not really using their potential fully. So, having that strength means you cannot utilize them, so, that is not a strength at all to you. Suppose you have a supplier, the supplier is very reliable, but if the plant capacity of the supplier is limited, they cannot give you the enhanced demand if you are asking for in time. So, having that strong capability is not of any use to you. So, it has to be matched.

Similarly for weakness, suppose you do not have adequate transport fleet for the distribution of your product. So, it is a weakness to you, a weakness for the company. Suppose, the fleets are available outside at an economical rental rate. So, it is not a weakness for you, you are outsourcing, getting it at an economical rate. So, your weakness is not actually a weakness. So, you have to match your strength and weakness for getting competitive advantage.

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So, next, we go for, one more alternative approach to analyze strengths and weaknesses. It is the checklist method, this checklist method, many authors have suggested, and many organizations also developed many checklists. I will be sharing with you the one that was developed by Pearce and Robinson. What did they do? They developed many checklists for different functional areas. So, for marketing, what are the firm's product, service and market share. Again, there is a pricing strategy, product and service mix, expansion potential, and channels of distribution.

So, these are all indicative ones, you can check whether these are your strengths or weaknesses. Similarly, you can contribute to this, on many other parameters and you can find out your strength and weaknesses. Similarly, they have also given finance and accounting – the ability to raise your short-term capital, ability to raise long-term capital, tax considerations, the cost of entry and barriers to entry, working capital, and financial size. These are the parameters or the checklist you develop yourself and find out against each whether these are strengths or weaknesses.

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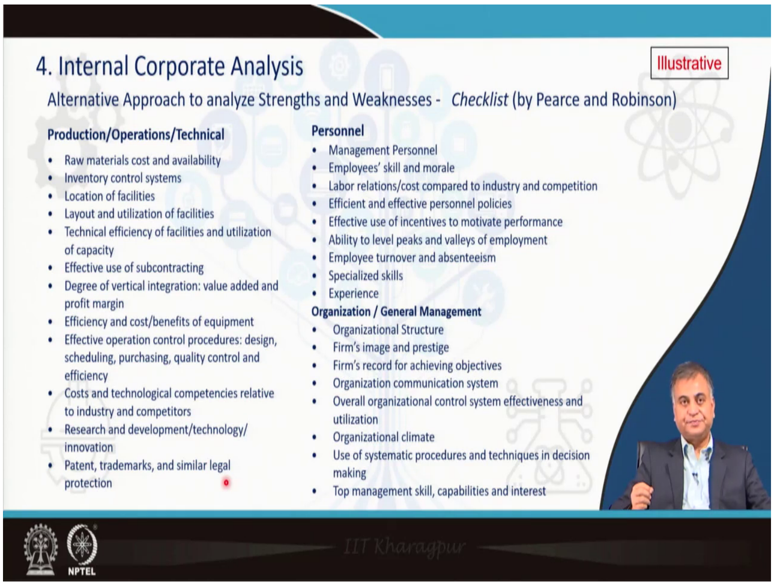

Similarly, they have also done for production, operations, technical say raw material costs, inventory control system, location of the facilities, layout and utilization of facilities. So, against each, you find out your strengths and weaknesses. Similarly, for personnel management, employee skill and morale, labor relations, the cost compared to the industries cost or the competitors' cost, ability to develop peak and valleys of employment, the organizations and general management related functions, what is the organizational structure. Firms' image and prestige are associated with it.

So, these are the different parameters given and you find out your strengths and weaknesses against each. So, this is the checklist method.

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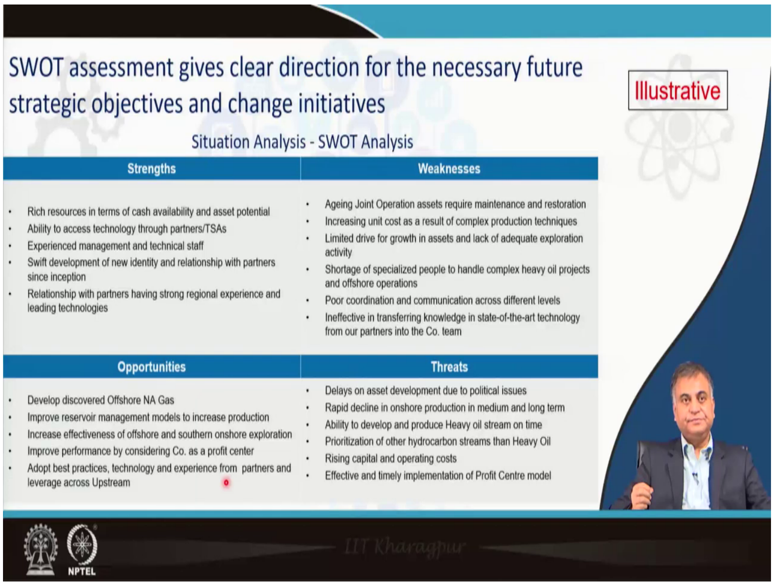

Now, after doing all these, what do you do? you carry out your situational analysis, what is the situational analysis? That is the SWOT analysis we call it strength, weakness, opportunity and threat. We have done internal analysis to find out your own strengths and weaknesses in order to get competitive advantage and we have done external environment analysis to get to know the opportunities and threats.

Now, as an analyst, you have consolidated those - this is called situational analysis. This situational analysis (as shown), is a real-life example, that we have done. So, this was for an oil company. We have found out with the internal corporate analysis, the strengths and weaknesses. Say, for this company strengths are: they had a rich resource in terms of cash availability and asset potential, ability to access technology through their partners that is technical service agreements.

Then experienced management and technical staff, you list down the strengths. Similarly, you also find out the weaknesses, say, ageing joint operations assets that require maintenance and restorations, increasing unit cost as a result of complex production techniques. So, you list down the weaknesses. Similarly, for external corporate analysis, you find out the opportunities. Opportunities are - developed or discovered offshore natural non-associated gas, improved reservoir management, and models to increase production. Similarly, the threats are: delay in asset development due to geopolitical issues, and rapid decline in offshore production in the medium and long term.

Now, as an analyst generally you find out say 20-30 strengths, 20-30 weaknesses, opportunities, and threats. But for making a corporate plan, you do not keep all those, here we have shown only the top 5 strengths, top 5 weaknesses and the rest you keep as backup. This is because you are presenting to the high level, and these things (issues) form the basis of long term strategic objectives.

So, this way you do the situational analysis. So, for this what did we do? We did the internal corporate analysis to arrive at your organization's strengths and weaknesses. We did the external environmental analysis, and competitors' analysis to know opportunities and threats. These four combined give you the picture for getting the competitive advantage because the competitive advantage is for a sustainable manner for the long term. It is not for the temporary measures; a temporary competitive advantage does not last long. So, we go for sustainable competitive advantage, we have to go in a plan-by-plan manner. So, this is why we do this situational analysis.

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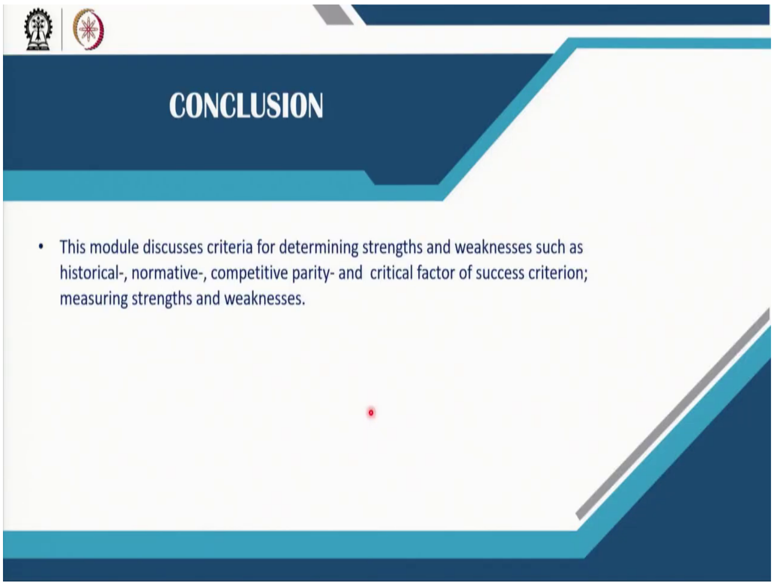

To wrap up this, we will talk about this module, and whatever we have talked about in this session. This module discusses the criteria for determining the strengths and weaknesses. And we have discussed in the other class, the historical criteria, normative criteria, competency parity and critical factor of success criteria for measuring strengths and weaknesses. Then, we also talked about various frameworks and approaches such as Bates and Eldredge's conceptual approach, Ansoff's grid approach, the 7 S framework approach and Pearce and Robinson's alternative checklist approach to identify firms' strengths and weaknesses.

So, we have discussed all these to find out the SWOT analysis or the situational analysis, the strength, weaknesses and opportunities threats for the organization, so that it can get a sustainable competitive advantage.

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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. Thank you for attending.