

Strategic Management: Concepts and Cases

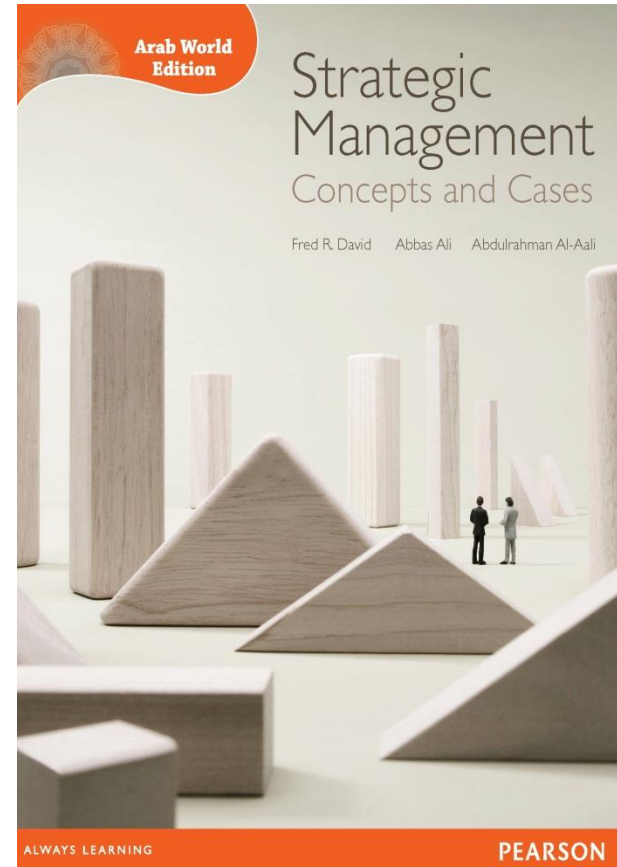
Arab World Edition

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Chapter 4: The Internal Assessment



Chapter Outline

- The Nature of an Internal Assessment
- The Resource-Based View (RBV)
- Integrating Strategy and Culture
- Evaluating Capabilities and Competitive Position
- Identifying Strengths, Weaknesses, Opportunities, and Threats
- Value Chain Analysis (VCA)
- The Internal Factor Evaluation (JFE) Matrix

The Internal Assessment

"Great spirits have always encountered violent opposition from mediocre minds."

– Albert Einstein

"There is nothing wrong with borrowing useful things from others."

– King Abdul Aziz Bin Saud

Nature of an Internal Assessment

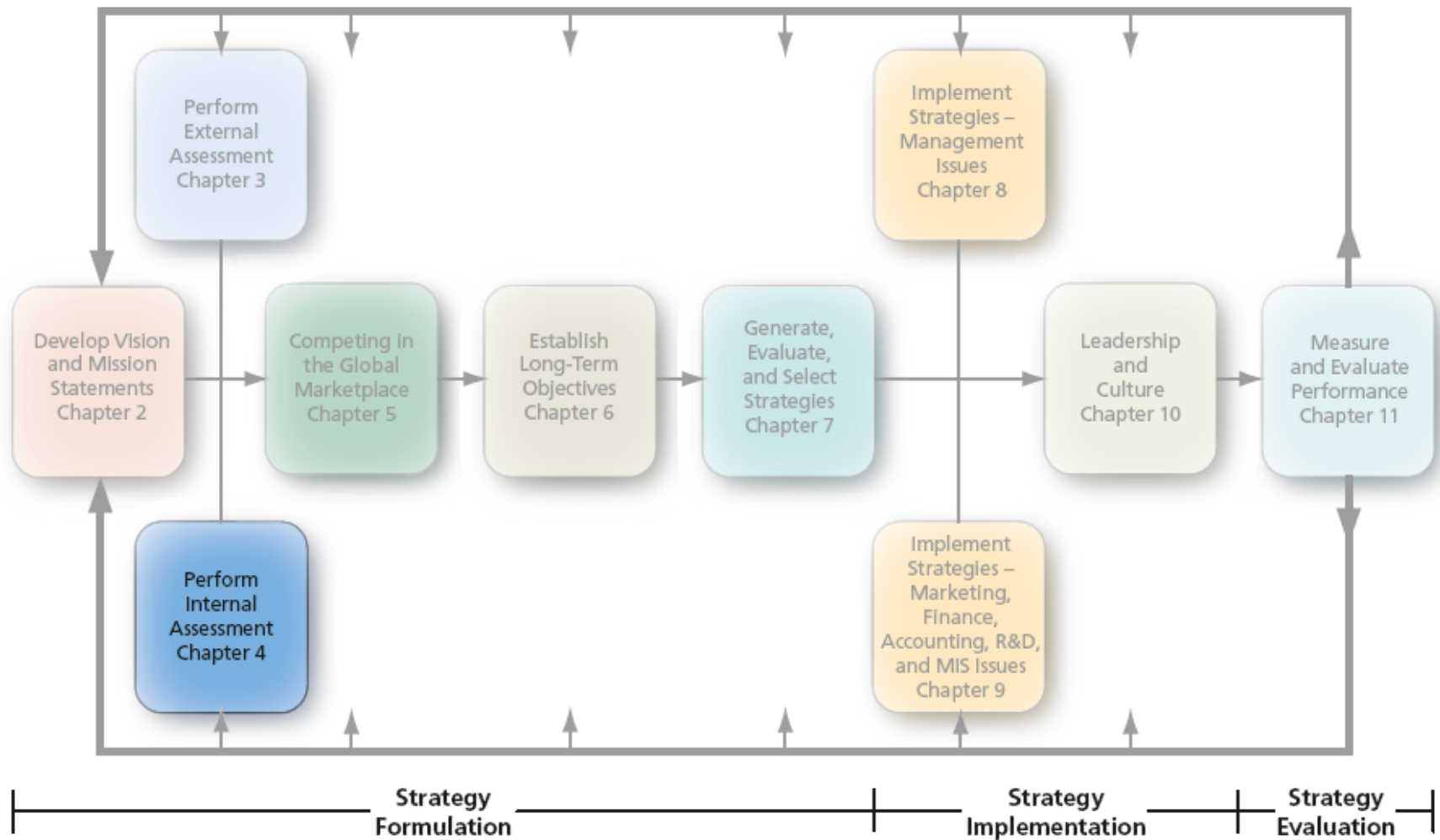
Functional Areas of Business:

- Strengths
- Weaknesses



FIGURE 4-1

A Comprehensive Strategic-Management Model



Source: Adapted from Fred R. David, "How Companies Define Their Mission," *Long Range Planning* 22, no. 3 (June 1988) 40.

Nature of an Internal Assessment

Basis for Objectives & Strategies

- Internal strengths/weaknesses
- External opportunities/threats
- Clear statement of mission

Key Internal Forces

Functional Business Areas

- Vary by organization
- In large organizations, divisions may have differing strengths & weaknesses

Key Internal Forces

Distinctive Competencies

Distinctive competencies

A firm's strengths that cannot be easily matched or imitated by competitors.

Key Internal Forces

Distinctive Competencies

- Building competitive advantage involves taking advantage of distinctive competencies.
- Strategies designed to improve on a firm's weaknesses and turn to strengths.

Performing an Internal Assessment

Parallels the process of external audit

Information from functional areas:

- Management
- Marketing
- Finance/accounting
- Production/operations
- Research & development
- Management information systems

Performing an Internal Assessment

Parallels the process of external audit (contd.)

Information from functional areas:

- Customer service
- Warranties
- Advertising
- Packaging
- Pricing under marketing

Performing an Internal Assessment

Performing an internal strategic-management assessment provides a vehicle for understanding the nature and effect of decisions in other functional business areas of the firm.



Performing an Internal Assessment

The key to organizational success is coordination & understanding among managers from all functional areas

Performing an Internal Assessment

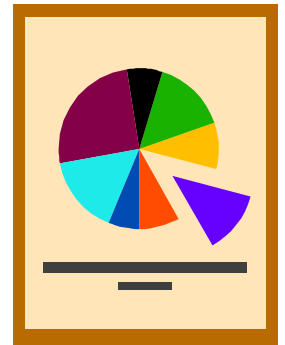
Functional Relationships

Number and complexity increases relative to organization size

Performing an Internal Assessment

Financial Ratio Analysis

Exemplifies complexity of relationships among functional areas of the business



Resource Based View (RBV)

Approach to Competitive Advantage

Internal resources are more important than external factors

Resource Based View (RBV)

Three All-Encompassing Categories

1. Physical resources
2. Human resources
3. Organizational resources

Resource Based View (RBV)

Empirical Indicators

For a resource to be valuable, it must be:

- Rare
- Hard to imitate
- Not easily substitutable

Integrating Strategy & Culture

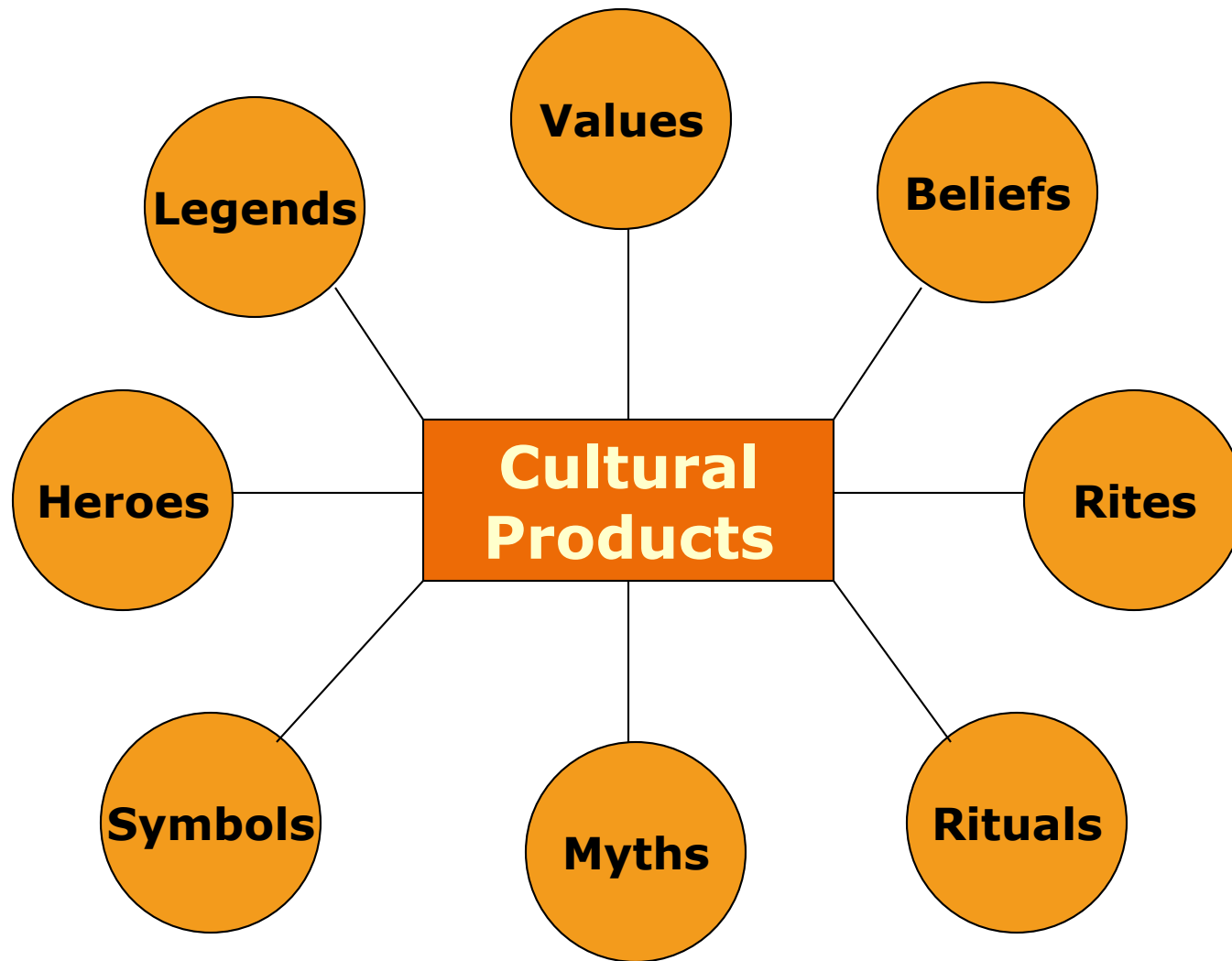
Organizational Culture: Pattern of behavior developed by an organization as it learns to cope with its problem of external adaptation and internal integration . . . is considered valid and taught to new members.

Integrating Strategy & Culture

Organizational Culture:

- Resistant to change
- May represent:
 - Strength
 - Weakness

Integrating Strategy & Culture



Integrating Strategy & Culture

Organizational Culture Can Inhibit Strategic Management

- Miss external changes due to strongly held beliefs
- Natural tendency to “hold the course” even during times of strategic change

Arab Versus Other Cultures

To successfully compete in world markets, Arab executives must have a better knowledge of historical, cultural, and religious forces that motivate and drive people in other countries.

TABLE 4-3 Cultural Pitfalls That You Need to Know

- Waving is a serious insult in Greece and Nigeria, particularly if the hand is near someone's face.
 - Making a 'goodbye' wave in Europe can mean 'no,' but it means 'come here' in Peru.
 - In China, last names are written first.
 - Breakfast meetings are considered uncivilized in most foreign countries.
 - Latin Americans are on average 20 minutes late to business appointments.
 - Direct eye contact is impolite in Japan.
 - In Brazil, touching your thumb and first finger – an American 'okay' sign – is the equivalent of raising your middle finger.
 - Nodding or tossing your head back in southern Italy, Malta, and Greece means 'no.' In India, this body motion means 'yes.'
 - Snapping your fingers is vulgar in France and Belgium.
 - Folding your arms across your chest is a sign of annoyance in Finland.
 - In China, leave some food on your plate to show that your host was so generous that you couldn't finish.
 - Do not eat with your left hand when dining with clients from Malaysia or India.
 - One form of communication works the same worldwide. It's the smile, so take that along wherever you go.
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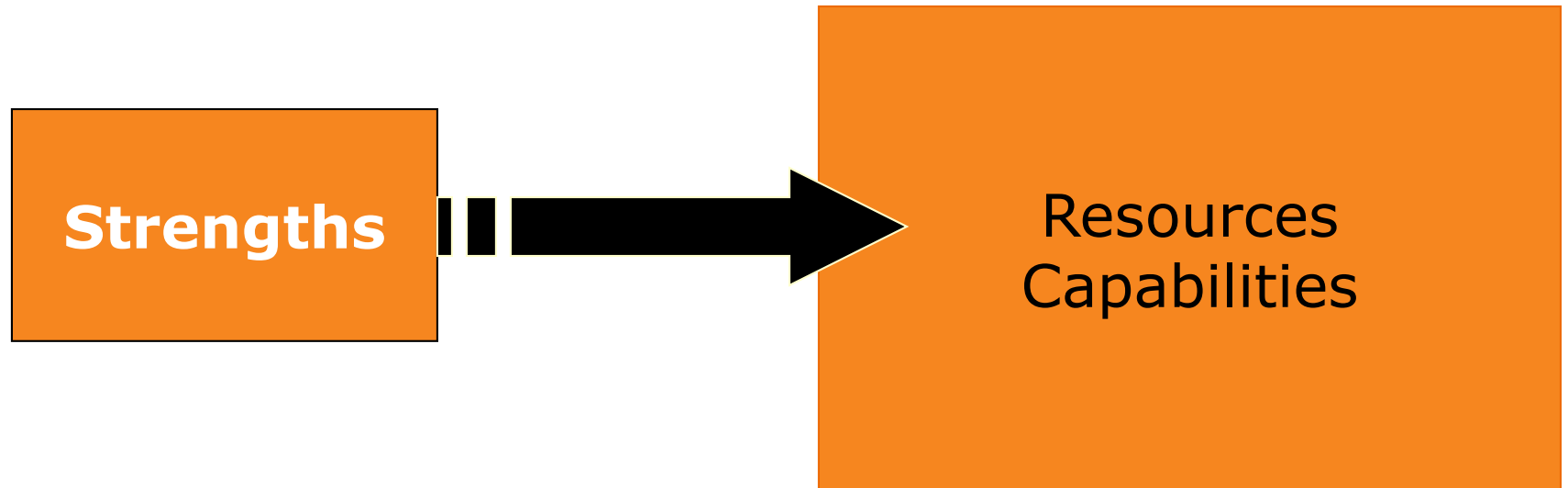
Evaluating Capabilities and Competitive Position

- Assessment of resource capabilities, and strengths and weaknesses
- A realistic map of the company's future
- Three common methods of assessment
 - Strength-Weaknesses-Opportunities-Threats (SWOT) analysis
 - Value Chain Analysis (VCA)
 - Internal Factor Evaluation (IFE)

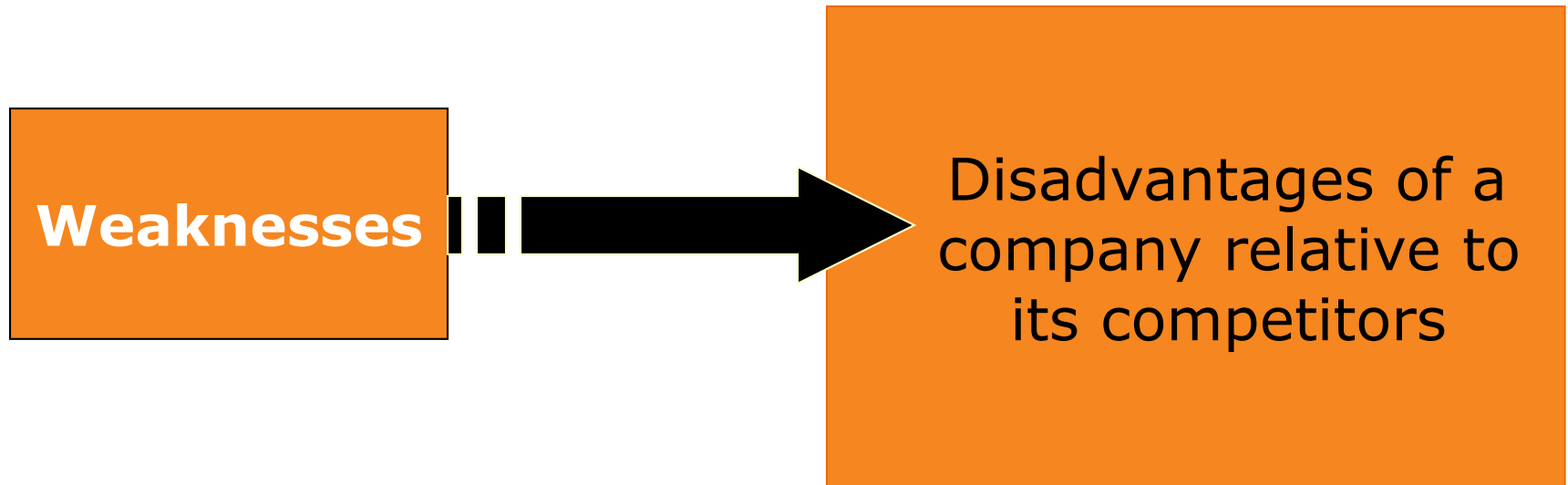
Identifying Strengths, Weaknesses, Opportunities and Threats

- Part of SWOT analysis
- Provides useful insights on the company's strategic position

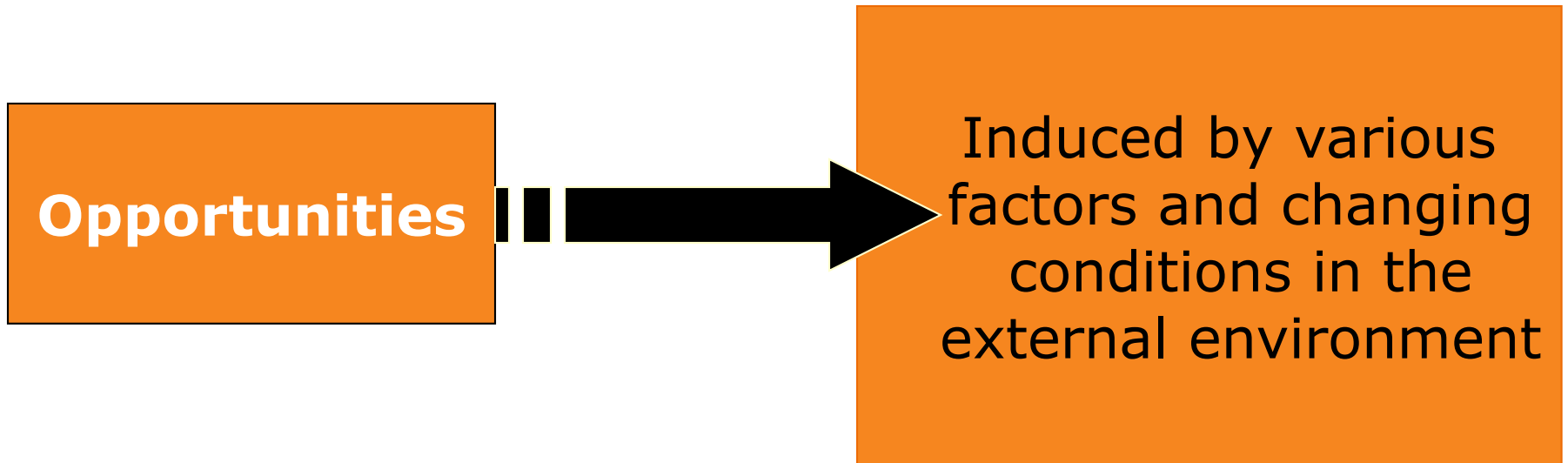
SWOT Analysis



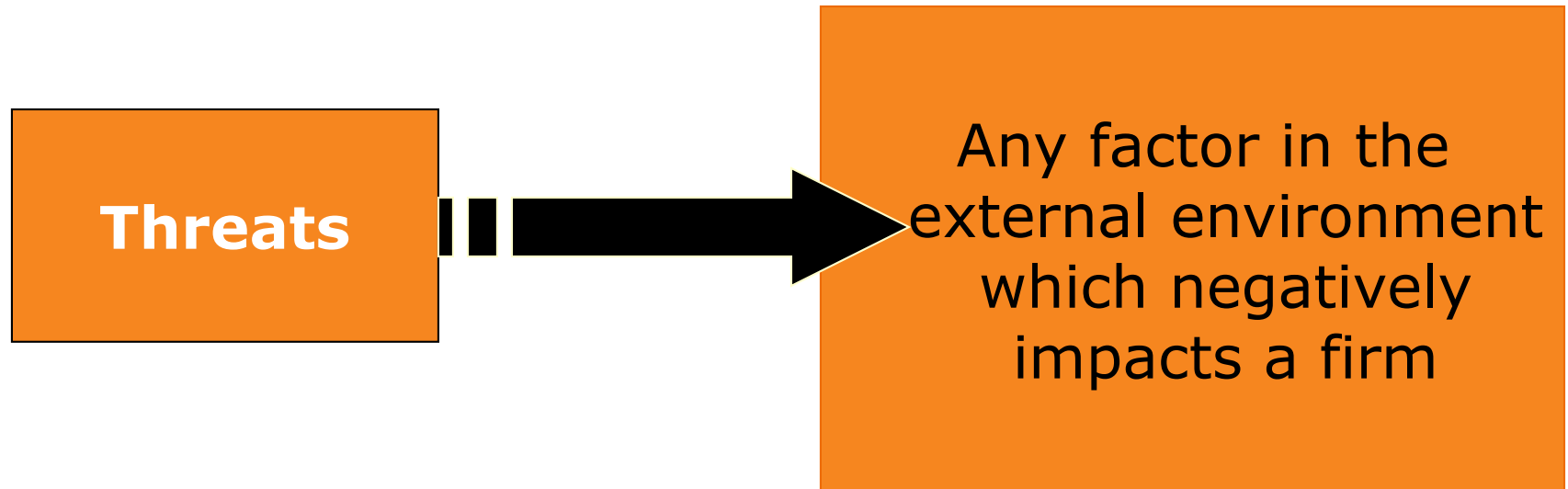
SWOT Analysis



SWOT Analysis



SWOT Analysis



The Value of SWOT Analysis

After the SWOT Analysis, executives must engage in two more processes:

1. Developing and understanding the company's position
2. Devising strategies compatible with the company's internal and external situations

The Value of SWOT Analysis

These three processes (SWOT identification, examining the firm's position, and developing strategies) are interrelated and require careful attention.

These help ensure the company is embarking on a course of action that is practical and will lead to optimal outcomes.

Value Chain Analysis (VCA)

Value Chain

Total revenues minus total costs of all activities undertaken to develop and market a product or a service yields value.

Value Chain Analysis (VCA)

TABLE 4-4 The Value Chain activities

Primary Activities	Supporting Activities
Inbound logistics	Human Resource Management
Operations	Procurement
Outbound Logistics	Technological Development
Marketing and Sales	Firm Infrastructure
Service	

Value Chain Analysis (VCA)

Value Chain Analysis

A process whereby a firm determines the costs associated with organizational activities

Value Chain Analysis (VCA)

Benchmarking

An analytical tool used to determine whether a firm's value chain activities are competitive compared to its rivals and thus conducive to winning in the marketplace.

The Internal Factor Evaluation (IFE) Matrix

- An internal strategic-management analysis
- Evaluation of strengths and weaknesses
- Basis for identifying and evaluating relationships
- Intuitive judgments are required

TABLE 4-5 A Sample Internal Factor Evaluation Matrix for a Retail Computer Store

Key Internal Factors	Weight	Rating	Weighted Score
Strengths			
1. Inventory turnover increased from 5.8 to 6.7 percent	0.05	3	0.15
2. Average customer purchase increased from US\$97 to US\$128	0.07	4	0.28
3. Employee morale is excellent	0.10	3	0.30
4. In-store promotions resulted in 20 percent increase in sales	0.05	3	0.15
5. Newspaper advertising expenditures increased 10 percent	0.02	3	0.06
6. Revenues from repair/service segment of store up 16 percent	0.15	3	0.45
7. In-store technical support personnel have relevant college degrees	0.05	4	0.20
8. Store's debt-to-total assets ratio declined to 34 percent	0.03	3	0.09
9. Revenues per employee up 19 percent	0.02	3	0.06

TABLE 4-5 A Sample Internal Factor Evaluation Matrix for a Retail Computer Store

Key Internal Factors Weaknesses	Weight	Rating	Weighted Score
1. Revenues from software segment of store down 12 percent	0.10	2	0.20
2. Location of store negatively impacted by new Highway 34	0.15	2	0.30
3. Carpet and paint in store somewhat in disrepair	0.02	1	0.02
4. Bathroom in store needs refurbishing	0.02	1	0.02
5. Revenues from businesses down 8 percent	0.04	1	0.04
6. Store has no website	0.05	2	0.10
7. Supplier on-time delivery increased to 2.4 days	0.03	1	0.03
8. Often customers have to wait to check out	0.05	1	0.05
Total	1.00		2.50

For Review (Chapter 4)

Key Terms & Concepts

Cultural Products

Internal Analysis

**Distinctive
Competencies**

**Internal Factor Evaluation
(IFE) Matrix**

**Distribution
Competencies**

Organizational Culture

Financial Ratio Analysis

**Resource-Based
View (RBV)**

For Review (Chapter 4)

Key Terms & Concepts

SWOT analysis

Opportunities

Strengths

Threats

Weaknesses

**Value Chain Analysis
(VCA)**

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