Module 3

The Internal Analysis

Introduction

Recall the names of at least three organisations whose product / service you have used and are very happy with. For example you may have flown Emirates or South West Airlines or Air Asia and have been impressed by the service. Ask yourself what was it that impressed you- punctuality, cleanliness, and courteous staff, on time schedule or something else. How was the courtesy or punctuality attained? What are the resources that would have created the kind of experience you enjoyed? In this unit we will learn about those factors that create the unique advantage for an organisation and enable it to compete profitably in the marketplace. The different frameworks that have been used to explain the competitiveness of the organisation include the value chain analysis, the McKinsey 7S framework and the Balanced Scorecard. What is apparent from these approaches is that the strengths may lie in a specific activity/ function or division it is their cross functional leveraging that makes them distinguishable and a source of enduring advantage.

Outcomes

Upon completion of this module you will be able to:

- *differentiate* between the building blocks of competitive advantage.
- *explain* the value chain concept.
- *explain* the concept of competitive advantage.
- *apply* the value chain concept.
- *define* the Balanced Scorecard.
- *explain* the McKinsey 7S Framework.
- *conduct* an internal appraisal based on given data.

Terminology

Competencies:	Cross functional integration mechanisms developed by the organisations.
Cross functional competences:	Those competencies that are an outcome of cooperation between different functions.
Resource inimitability:	A resource which cannot be copied easily is an inimitable resource.
Superordinate goals:	Goals that provide the overall value framework for the organisations decisions. They imply this is what we stand for beyond products/ services.

Resources, competencies and capabilities

The experience that made you happy, or in other words created a value that you cherished in the above cited instances, is the outcome of deployment of a combination of resources. The resources have been deployed to create a competitive advantage. The qualitatively superior flying experience that the organisation has created is based on the configuration of an organisation's resources, capabilities and competence – which are its strengths. If there are many other flyers who feel that the airline has created a value worth paying for repeatedly, isn't the airline ahead of competitors? Strengths are the "Competitive assets" of the organisation and weaknesses are the "Competitive liabilities" of the organisation (Thompson & Strickland,1999, p107). Knowing about its strengths and weaknesses enables an organisation to:

- Leverage them for strategic choice.
- Improvise those vulnerable areas that impact its profitability adversely and
- Develop areas that enhance its profitability.

The strengths and weaknesses of the organisation are rooted across the organisation in the different functions it performs, the routines, processes, mind-sets, leadership, structure, digitisation, culture, resources, intellectual capital, strategic thinking, cross functional coordination, beliefs and systems. The different factors that create the strengths and weakness are created by the strategic history of the organisation, deliberate infusions, or are an outcome of functional decisions (for example, location of a hotel). The strengths and weaknesses are embedded in the resources, capabilities and competencies of the organisation.

Resources

Resource connotes the cumulative sum of all tangible and intangible assets that an organisation has. The **tangibles** include people, money, material, land, inventory, and distribution network. The **intangibles** include technology, skills, tactical and strategic advantages, brand name, reputation, intellectual property, knowledge, processes, corporate culture and experience. Resources create a “value” that exceeds the value created by the competitors and in the long term leads to higher profitability. Resources play an important role in the choice of strategy. Their availability or non-availability may preclude or include some options. To make the best of the resources possessed the managers need to have:

- The knowledge about the resource spread within an organisation. Unless the resources are mapped in a systemic manner such knowledge may be dispersed but not available at the click of a button. A resource inventory can allow managers to pool resources across different demarcations in the organisation otherwise there will be wasteful creation of multiple resources without commensurate results.
- Knowledge about value and distinctiveness of the resources. The resource must be qualitatively and competitively superior.
- The ability to develop resources constantly and consistently. Resources have contextual relevance. There has to be inherent flexibility in leveraging resources either to make the best of an opportunity or in some case even to make the opportunity “happen”.

Activity 3.1

Activity

Identify three intangible and three intangible resources for a restaurant chain, furniture store and a telephone company. Which do think makes uniqueness difficult?

Type of Organisations	**Tangible assets**	**In tangible assets**	**Difficult to copy**
Restaurant chain			
Furniture store			
Telephone company			

Capabilities

Capability is the ability to make the best of the available resources. The business process and work routines within different functions create the capabilities. An organisation has marketing, manufacturing and financial capabilities. For example, an organisation may have the capability to manufacture and fit the lowest cost prosthesis in the world, as well as continually train and improvise on that, giving it an unassailable position in the prosthetics market where almost 70 per cent of the users are poor and depend on philanthropy for fitting. Similarly another organisation may have the capability to develop a fixed menu of "fast food items" made available in the minimum possible time across all outlets world over. Capabilities enable the organisation to tide over environment uncertainties. Capabilities are applicable across markets time and customers. Capabilities are not static they evolve continuously. Coca Cola has a unique capability to market its product even in the remotest areas. It is available in the remote mountainous regions of India through the summer months when tourist traffic is at its peak. To get it there would require months of advance logistics planning.

Competences

Competences are the cross-functional integration mechanisms developed by the organisation. The efficiency and the effectiveness of the organisation depends on this cross-functional coordination for it leads to advantages such as lean manufacturing, reduced cycle time, reduced lab to market time and so on. Leveraged further with other cross-functional advantages, these outcomes enhance the competitiveness of the organisation.

If the organisation is able to translate the transcendence of the divisional and functional boundaries across some key areas of its business and do so better than the competitors the organisation has an advantage over the competitors that is difficult to copy. These difficult to copy competencies are called as *Core Competences.* Core competence as discussed by C.K Prahalad and Gary Hamel (1990, pp. 79-91) implies:

- a competence unique to the organisation (it should also be durable)
- a competence that is difficult to imitate and
- access to new markets.

According to them, the primary role of senior management is to develop the "strategic architecture" to guide the organisation in creating and acquiring core competencies through internal development or external acquisitions and alliances. The strategic architecture is a "road map" of the future that identifies which core competencies to build and their constituent technologies." **Figure 3.1** shows the application of the competences Honda (Japan) has in engine technology, manufacturing and branding to different products for different markets.

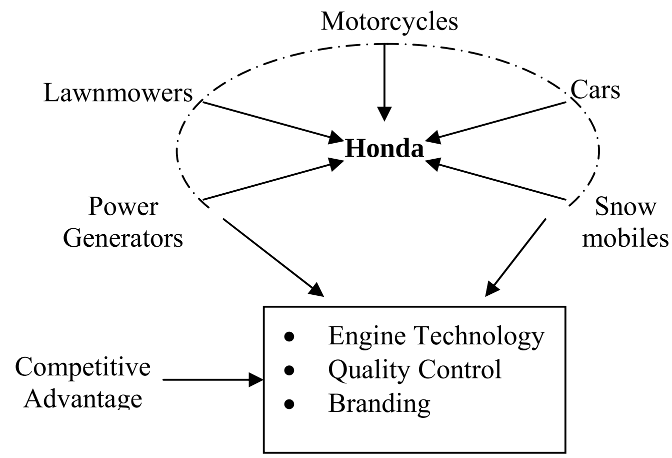


Figure 3.1: Honda Competencies

Competences are the outcomes of decisions taken at different levels to coordinate, integrate, learn, share, create teams, assign tasks, and develop cross functional outcomes. Each organisation would do so in its own unique way. Can the organisation make the unique way the basis of its strategic moves? For that the competence must be replicable along different businesses (as in the Honda example cited by Hamel and Prahalad shows). The organisation sharpens its competences and consistently seeks to enlarge the scope of its sustainable competitiveness.

Determining the value, rarity, inimitability and the organisation preparedness (Miller, 1998) to exploit the competence enables an organisation to know if it can be the bedrock of any strategic choice. Some other criteria that can be used to classify competences and resources and check for their distinctiveness are given in the box below.

Is the resource **scarce?** Water for Coca Cola and Pepsi in India is one such resource.

Are the resources/ competences **mobile**? Buildings can be sold and acquired, key people can be lured by competitors but culture cannot be moved from one organisation to another or from one owner to another.

Is the competence **inimitable**? Branding, patenting, scale deterrence etc make a resource difficult to copy.

Is the resource/ competence **durable**? How long will it last.

How **appropriable** are the advantages? Will the first mover advantages last?

How **superior** are the resources / competences compared to the competitors' similar or different competences?

Activity 3.2

Activity

Given below is a list of some advantages cited by organisations. Sort the advantages listed below in terms of rare, valuable or inimitable. Explain why you think it is an advantage to be rare or valuable or inimitable in the logic column.

List of advantages access to minerals in form of captive mines, process patents, goodwill, low cost equipment, least lab to market time in the industry, high research and development budget, employee skills, training programmes, activity grids, low overheads on production and procurement, low cost assembling operations, low employee turnover, in time assembling, access to low cost technology and proprietary technology. Present your assessment as per the table below.

Competence	Rare	Valuable	Imitable	Logic

Competitive advantage

Resources, competencies and capabilities are developed and configured to enable superior performance over the competitors. Competitive advantage lies in some parts of the organisation but its value as an advantage emerges only if the superiority of that factor is leveraged across the organisation and the other functions and activities support the superiority. Competitive advantage is embedded in the configuration of functions and discrete activities that an organisation performs to manufacture, market, and service its offering. However, the function-wise analysis alone does not reveal the interconnectedness among the different functions and activities that create competitive advantage. Competitive advantage enables a superior position not by superiority in a major function but the complementarily that is built cross functionally. Broadly, the internal factors (and sub-factors that derive from these) which contribute to competitive advantage are structural, cultural, resources, processes and governance. Each of these factors can be mapped and measured through chosen sub-factors in qualitative and quantitative terms. For example , **process** can be measured through profitability, liquidity, activity ratios, relative market share, batting ratio, sales turnover ratio, employee turnover ratio, energy saving per manufacturing cycle, wastage reduced per cycle, number of defects per cycle/ customer complaints attended/ most frequent complaints energy efficiency, and so on. **Structure** can be mapped in terms of span of control, distance between the key operations managers and the front line employees, number of cross-functional teams with mandates, and frequently used communication networks. The **culture** can be mapped through measurement of attrition rate, absenteeism, performance system, extent to which employees know of and practice the organisation's core values; percentage of women in the work force, and employee grievance redresses systems. **Governance** can be mapped in terms is the board broad-based, is our compliance of statutory provisions exemplary, are the people motivated, do we attract the best talent, do we do enough to promote ecologic balance? **Resources** can be mapped by measuring the nature of critical resource, the availability, the skill set of the manpower, the cost of capital, the age and quality of its equipment and strategic natural resources. Governance has been added here because good governance adds value to the organisation's standing and is leveraged in many ways. After the 2008 meltdown governance has become an important measure of the organisation's health. It is the interrelationships among them that create superior endowments for the organisation. These inter relationships can be visualised by the **Figure 3.2.**

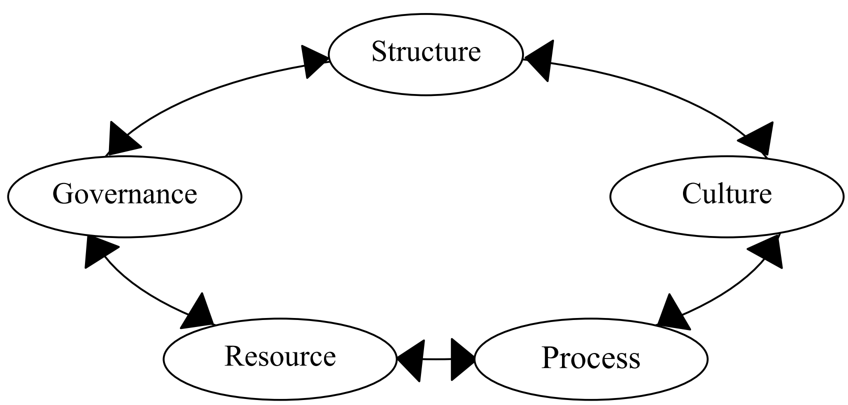


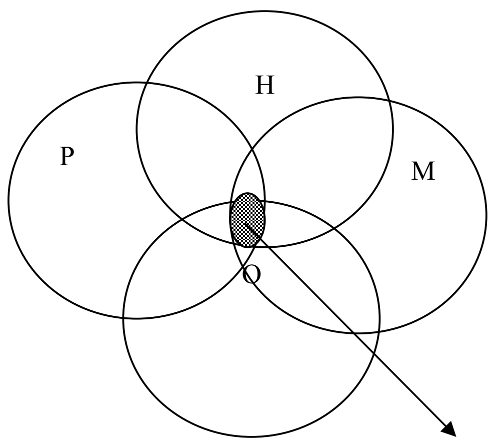
Figure 3.2 Inter-relationships and Competitive Advantage

The Key Internal Strength Determinants

Let us suppose a manufacturing organisation has been able to record a zero defect manufacturing situation. This situation has been developed by cross functional factors as shown in the **Table 3.1**. To scale up or replicate these factors in other production units the performance indicators can be derived from this experience and in a given time the entire production can be defect free. The intersection of all the factors embodies the competitive advantage.

Objective: Zero Defect Manufacturing

Quality Material	→	**Procurement (P)**
Sourcing in Time	→	**Procurement (P)**
Machine Maintenance and Preventive Break-Down	→	**Operations (O)**
Learning Effects	→	**Operations (O)**
Quality Standard Specification	→	**Marketing (M)**
Work Performance	→	**HR (H)**



Competitive Advantage

Table 3.1: Cross Functional Competence

Discussion

Refer to any one organisation you are familiar with and about whom information is available. Read about it at length and identify five factors respectively as strengths and weakness. The sample presentation is given for you. Discuss the findings among your peers.

Sample presentation

I have studied the organisation ABC from the following sources (name the sources). On the basis of this study the strength- weakness analysis is conducted. The analysis does not/does have weights assigned for the analysis.

Competitive Assessment of Organisation ABC

(Weighted/ Non-weighted)

Rating Scale 1 to 5; 1 is the lowest and 5 the highest.

Factor	**Measure**	**Closest Competitor**	**Explanation**
Culture			
Structure			
Resources			
Governance			
Processes			
Summary report on Comparative Strengths and Weaknesses			
Action Plan based on analysis to retain/ develop Key Strengths.			

Analysing organisational activity

Having looked at the broad framework within which reference is made to organisations' strengths and weakness we will now discuss a few frameworks which enable us to disaggregate information about the organisation's activities. It can be done by using the Value Chain analysis (developed by Michael Porter), the Balanced Scorecard (developed by Norton and Kaplan) and the McKinsey 7S framework (developed by the consultancy firm, McKinsey).

Value chain analysis

The value chain is based on the premise that creation of customer value is the route to sustained competitive advantage. The value is created by interplay of activities and not functional profiles and lies in either the ability to be low cost producer or a differentiator. There is a set of activities that are core to the value chain and a set of activities that are supportive to the core ones.

The generic primary or core activities according to Michael Porter (1985) are – the **inbound logistics, outbound logistics, operations, and marketing and sales and service. Table 3.2** shows the primary activities, the key tasks and the implication of those for strategy.

Primary Activities	**Key Tasks**	**Implications for Strategy**
Inbound Logistics Vendor relationships inventory management. Warehousing.	Procure, sort, label, transport assemble, load on production etc.	Differentiation advantage of superior input at low cost or its scarcity appeal. Quality inputs and quality output.
Operations Productivity automation of production, plant layout work flow design material handling.	Manufacturing, machining, tooling assembling, testing etc.	Quality based differentiation. Cost advantage with automation, or synergy among different businesses for production, or common use of facilities.
Outbound Logistics Supply to the customer through intermediaries finished goods dispatch warehousing.	Management of intermediaries, managing efficiency in supply to customers, timeliness of supplies.	Reduce intermediaries for cost advantage. Superior value creation by intermediaries such as cold chains.
Marketing and Sales Marketing research	Managing the product life cycle, price point	Differentiate on basis of quality, exclusivity.

promotion, advertising, branding, channel management innovation in selling.	determination, managing the sales force, administering the marketing mix.	Gain market share by aggressive promotion for cost advantage.
Service Replacement, guarantee warranty attention to customer complaints.	Develop the sales force, build customer relationship policies, train for performance seek continuous improvement.	Differentiation advantage. Unique service management with differentiated inimitable skill set.

Table 3.2: Primary Activities

The support activities create the ground for primary activities. These include firm infrastructure, human resource management, and technology development and procurement. For each of the support activity the key factors are enlisted in **Table 3.3**.

Firm infrastructure

- Information system support.
- Coordination and support of value chain activities.
- Planning and control. Ability to access resources at lower rates including capital.
- Quality of the strategic planning system.
- Public image and corporate citizenship.
- Ability to spot opportunities and threats.

Human Resource management

- Efficiency of procedures for recruitment selection and training.
- Reward and recognition systems.
- Extent and level of employee motivation.
- The nature of the work environment to reduce absenteeism and turnover.

Technology Development

- Extent of the development of research and development.
- Quality of research facilities.
- Seamlessness between the technology development and transfer.
- Type of working relationship among the technology development department.
- Rate of success of the technology development initiatives leading to product or process innovations or improvements.

Procurement

- Capacity to minimise the dependence on dominant suppliers.
- Relationship with the different vendors to procure in emergent circumstances, to negotiate lowest prices, to enter into long term contracts at low rates, to enforce quality standards in supplies.
- Appropriateness of procedures to order capital intensive items.
- Development of criteria for lease/hire of property/equipment.
- Goodwill and amicable relationship with lead suppliers.

Table 3.3: Support Activities in Value Chain

Porter (1985) developed and studied the value chain as the basis of **creating either cost-based or differentiation advantages**. Customer value is created by lower price, superior product performance or outstanding customer service. The purpose of the value chain analysis **is to identify those key activities that improve the efficiency and the efficacy of the generic production system** by either lowering the cost or adding value to those activities. Every business that interfaces with many other businesses to buy, sell, transport, insure, deliver, store or support has its own value chain. Understanding the value chain of that key business which contributes to our competitive advantage can help in aligning the activities better and attaining greater immunity from copying.

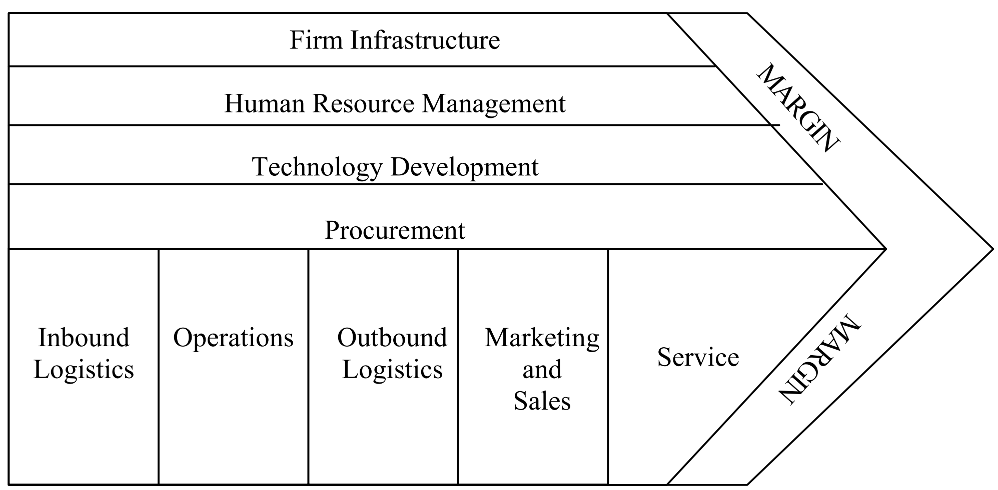


Figure 3.3: The Generic Value Chain

Source: Adapted from Porter, Michael (1985). *Competitive Advantage: Creating and Sustaining Superior Performance.* The Free Press; New York pp 37.

To understand this let us take the example of a manufacturer whose products have a low-cost advantage. What is important for the manufacturer is that the low-cost advantage is not restricted to any one core activity such as a low-cost supplier. That advantage is imitable and the competitive position will be weakened sooner than later. The low cost must also derive from combination of operations and outbound logistics, inbound logistics in a manner that is specifically unique and cannot be copied easily. Such a configuration would imply that the organisation captures the cost of the value of cost advantage rather than the supplier or intermediaries. In case the organisation's internal process activities do not support its main competitive thrust then the competitive position is also weakened. Consider the case of a retail chain which claims a customer-centric replacement policy. It is worthwhile for the organisation to examine if the activities necessary to create the hassle-free replacement experience are in place. Can the customer get a replacement from any counter at any time? Has the organisation done a dummy drill on how much time and movement it takes to get a replacement? Are the activities centred on the ease of the customer or the financial audit needs of the organisation? Apple Computers and Marks and Spencer have customer-centric replacement activities. **Figure 3.4** shows the overlap of two value chains to deliver customer experience. The bold line portion of the figure represents the superior experience created by three intervening variables. Such an advantage is inimitable.

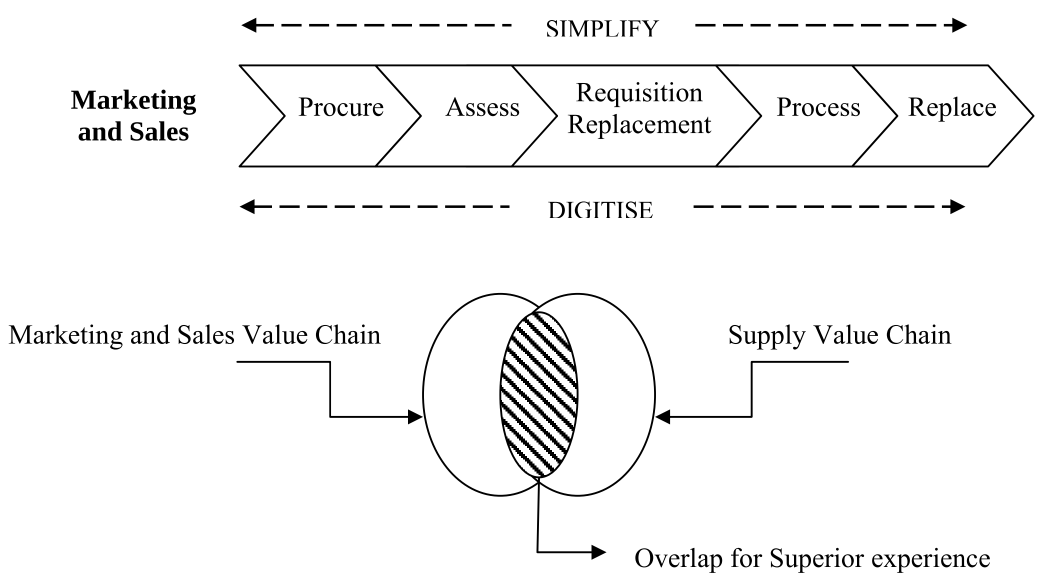


Figure 3.4: Value Chain for Customer Friendly Replacement

The balanced scorecard approach to internal appraisal

Organisations are interlinked and their strengths derive from that inter-linkage more than they do from standalone activity. There is a linkage between the results the organisation seeks for its shareholders, the strategy it adopts and the various activities it carries out as part of its day-to-day operation. The creation or loss of value occurs if the organisation is casual about those linkages and fails to capture the learning that occurs every day to improvise and strengthen its operations. Measurement is the central theme in the balanced scorecard developed by Norton and Kaplan (1996). The balanced scorecard considers four interlinked internal perspectives – the financial, customer, operations and organisational to develop and define value. The scorecard was initially used as a performance improvement tool but later it became popular as a strategy implementation tool as it emphasises measurement. The BSC emphasises "what cannot be measured cannot be improved" and the scorecard either measures quantitatively or qualitatively. If profitability is the result of increased sales and lowered operating costs and investments then the organisation should be able to translate the implication of lowered costs of operations and investments into marketing, sales, procurement, and maintenance targets for the front line. Lowered costs of production translate into lower prices. The strategy sought to be attained for shareholders must be translated across the functional areas so as to be discernible to those who perform the daily operations. The strategy is not fully realised if the description of strategy in terms what it wants to do for customers, the position it wishes to occupy in the market, is not converted into specific attainable and measurable targets for the lowest-level employee. Balanced scorecard considers four internal perspectives – the financial, customer, operations and organisational perspective to develop and define value.

If McDonald's has to attain position of the low cost and quality producer of fast food and earn a return on investment of say 11 per cent, it must be able to translate its financial targets for strategy into *customer specific targets* (time to be taken to deliver the food), *operations targets* (batch of fries to be obtained in one even, machine maintenance periodicity and *organisational targets* (transferring learning from the Hamburger University to the outlets). The monitoring for that must be put in place so that any detraction from operational efficiency is addressed. The organisation efficiency that is created is enduring for the organisation.

Figure 3.5 gives some measures for each of the four aspects.

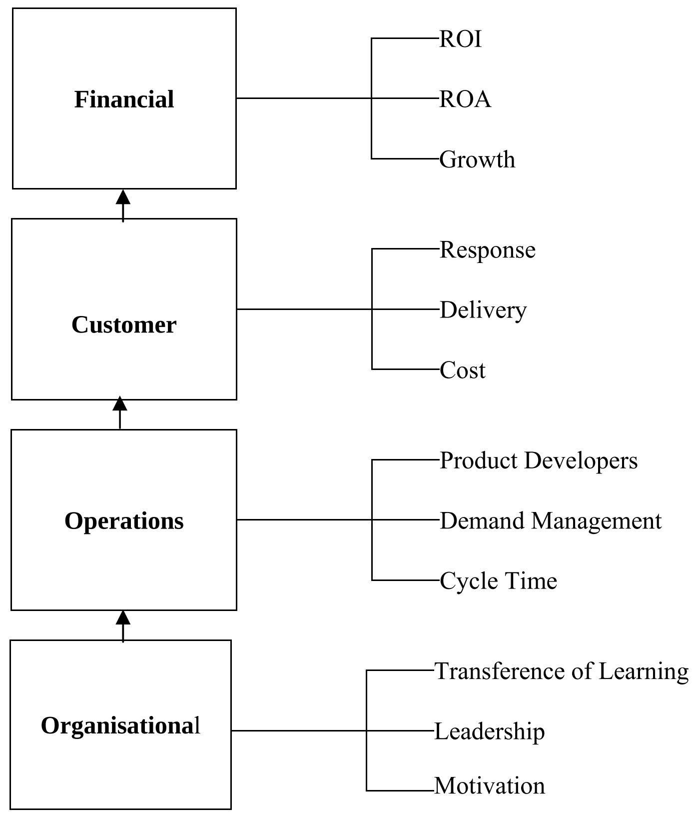


Figure 3.5: The Balanced Scorecard

Adapted from Robert S. Kaplan and David P. Norton, "Using the Balanced Scorecard as a Strategic Management System," *Harvard Business Review* (January-February 1996): 76.

To use the Balanced Scorecard as a tool for internal analysis the key managers can do a retrospective analysis for the strategy being pursued and a prospective analysis of factors that need to developed for success of future strategy. Generally it has been seen that it is not the shortfall of practices that leads to the erosion in the organisation it is the continuation of practices whose usefulness must be questioned but has not been for historical or emotional reasons.

The McKinsey 7S Framework

The 7S model developed out of the practice of the consulting firm McKinsey. The organisation's effectiveness is determined by seven factors whose nomenclature begins with the alphabetic "s" therefore the name **7S**. **The seven factors are- super ordinate goals, strategy, staff, skills, structure, system, shared values, and style.** The framework gives equal weight to each of the seven factors and emphasises the interrelatedness and the "fit" among them. **Figure 3.6** is the diagrammatic representation of the framework. If the structure does not support the strategy or if the skills are not in consonance with the strategy the fit is reduced and so the effectiveness of the organisation. The 7S framework was a prescriptive framework. It can be used as a tool of internal analysis by drawing up the indicative factors for each of the seven framework elements. The indicative factors are detailed below.

Strategy: Strategy is the plan to develop long-term advantages. Competitive advantage derives from meeting customer expectation. The organisation examines if the strategy is appropriate and the organisation competitive in terms of meeting those expectations.

Structure: Structure embodies the reporting and the accountability relationships within an organisation. The structure must support the strategy. The Strategy for **electronic** retail cannot be met with a functional command and control-based structure**.** The organisation examines the extent to which the structure facilitates the coordination and cooperation and extent of centralisation and decentralisation among the different parts of the organisation.

System : System refers to the routines, procedures activities necessary to carry out the operations of the organisation. Every organisation derives its strength from some key systems: marketing, finance, production, procurement, human resources, and so on. The other systems perform a strengthening role. Given the centrality of the system in creating advantage, are the rules, procedures and controls adequate?

Shared values or super-ordinate goals: The super ordinate goals or shared values signify what we stand for and are the glue that holds the organisation together. They direct the culture of the organisation in terms of its work and value ethic. The farther down the organisation these are disseminated the greater is the sense of belongingness created among its members. It is similar to the strategic intent.

Style: The leadership can be exercised in the organisation in many ways. Style refers to the leadership pattern in the organisation. Does it motivate and inspire? Are the expectations from the employees and the rewards to them balanced? Does the leadership and the overall climate foster team working? The style can either reinforce or reduce cross functional learning and sharing among the organisation members.

Staff: The people and their capabilities create the advantages for the organisation. A talent pool and qualitatively superior competencies are the intangible assets on which strategy rides. A highly specialised competency is difficult to emulate. The organisation must consistently seek to find out if the staff is compatible with the changes and if there are any competency gaps.

Skill: The teams and the personnel have some unique sets of skills. The extent to which those skills can be leveraged and the extent to which they are differentiated from competitors are critical. For example, a Nobel laureate as a faculty member adds tremendous value to a university's research programme.

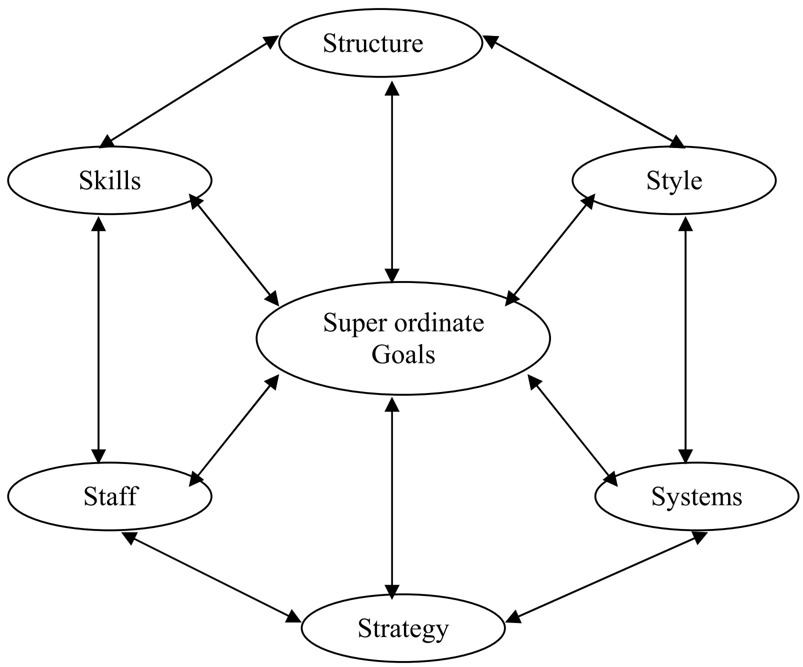


Figure 3.6: The McKinsey 7S Framework

Disaggregation of internal context factors: Comparison of three approaches

The three approaches listed above provide an indicative approach for those factors that the organisation may consider. **Table 3.4** enlists the salient features of each for a quick review.

Porter's Value Chain	**Balanced Scorecard**	**McKinsey 7S Framework**
Linked to competitive strategy.	Linked to the grand strategy.	Focused on effectiveness.
Focus on activities that lead to cost or differentiation advantage.	Focus on developing measures for the four factors that enable strategy execution.	Focus on the overall effectiveness. Different advantages are rooted in the seven factors of the framework.
Use of qualitative and quantitative measures is possible.	Measurement is the key and all the four factors are defined in a manner that quantitative and qualitative measurement is possible.	Quantification is possible after the broad factors has been sub-classified.
Academic in orientation.	Is practice oriented.	Broad based developed from practice.
Inside out perspective.	Inside out perspective.	Outside in perspective.
Focus on hard aspects more than on the people aspects.	Focus on the hard and the soft aspects in the form of leaning and sharing.	Equal focus on the hard and the soft aspect as well as on their complementarities.

Table 3.4

The function-based approach to internal analysis

The organisation's functions marketing, financing, accounting, administering, producing, researching along with managing, and coordinating, are the primary units of analysis for internal appraisal. Organisations can either use them as part of a framework (as discussed above) or make use of them by defining the specific success factors (key success factor). The key success factors are organisation and industry-contingent. For example, in a country the government may heavily subsidise development of energy-efficient technologies. An organisation which has a good research and development base can take up the subsidy and develop cost-efficient solar panels. The subsidy is the industry component and the research and development competence is the organisational component. In a given industry the set of key success factors are important for all the organisations. The KSF's can be in the functional competence (research and development in this case) product service attributes, resource access, or specific strategy elements. For strategy-specific uses the key success factors are more broadly based and can include location advantages and short-term temporal factors. For strategy-based appraisal the key success factors can be defined and comparison among the competition organisations can be made. Simplistically, non weighted scores can be used but preferably weighted scores should be used. The box below explains the use of key success factors in internal appraisal (Thompson et al, 1999). The weighted averages can be derived from the experience of managers and information from competitors is obtained from secondary sources or competitive intelligence.

Sometimes organisations conduct the internal appraisal as a part or prelude to organisation development initiatives also. For OD based interventions, more emphasis is placed on the appraisal of people and culture-related issues. The gaps and deficiencies identified in such appraisals are addressed through climate-building interventions. Corporate strategy can be developed in common with such initiatives.

From the above discussion it is clear that there are many ways in which organisations can conduct the internal analysis. There are theoretical approaches such as the value chain concept as well as indicative parameters on the basis of which the organisation can conduct the internal appraisal. In the conduct of the appraisal the organisation should be careful to underpin the objective of its analysis. The organisation should focus on the interrelationships and cross-functionality in determining the analysis. The interrelatedness is a far more enduring source of advantage than a singular functional attribute.

Module summary

Summary

In this module you learned that internal appraisal is crucial for strategy formulation. The organisation's configuration of resources, capabilities and competencies is evaluated to assess the competitive advantage. Competitive advantage results from cross functionality, innovation and managerial capability. There are many ways in which the competitive advantage can be adjudged. The three approaches discussed in the module are the Value Chain analysis, The Balanced Scorecard and the McKinsey Framework. Each approach opts for different aspects to study but they are embedded in the organisation's functional profile and the Key Success Factors. It is the interrelatedness that creates an enduring advantage. An organisation can have a broad as well as a context-specific appraisal. The knowledge and perspective about the means to conduct the analysis is sufficient to guide managers to develop a system which meets their need of internal analysis.

Assignment

Assignment

Conduct the internal appraisal of the PETRONAS Corporation based on the last three years' financial statements, chairman's speech, public announcement of policy and other similar resources. The resources that are used to develop the strength/weakness analysis should be from a verifiable source using the key success factor frame work.

Assessment

Assessment

Read the following table and answer the questions given at the end.

Illustrations of Unweighted and Weighted Competitive Strength Assessments

A. Sample of an Unweighted Competitive Strength Assessment
Rating scale: 1 = Very weak; 10= Very strong

Key Success Factor/ Strength Measure	ABC Co.	Rival1	Rival2	Rival3	Rival4
Quality/product performance	8	5	10	1	6
Reputation/image	8	7	10	1	6
Manufacturing capability	2	10	4	5	1
Technological skills	10	1	7	3	8
Dealer network/distribution capability	9	4	10	5	1
New product innovation capability	9	4	10	5	1
Financial resources	5	10	7	3	1
Relative cost position	5	10	3	1	4
Customer service capabilities	5	7	10	1	4
Unweighted overall strength rating	**61**	**58**	**71**	**25**	**32**

B. Sample of a Weighted Competitive Strength Assessment
Rating scale: 1 = Very weak; 10= Very strong

Key Success Factor/ Strength Measure	Weight	ABC Co.	Rival1	Rival2	Rival3	Rival4
Quality/product performance	0.10	8/0.80	5/0.50	10/1.00	1/0.10	6/0.60
Reputation/image	0.10	8/0.80	7/0.70	10/1.00	1/0.10	6/0.60
Manufacturing capability	0.10	2/0.20	10/1.00	4/0.40	5/0.50	1/0.10
Technological skills	0.05	10/0.50	1/0.05	7/0.35	3/0.15	8/0.40
Dealer network/distribution capability	0.05	9/0.45	4/0.20	10/0.50	5/0.25	1/0.05
New product innovation capability	0.05	9/0.45	4/0.20	10/0.50	5/0.25	1/0.05
Financial resources	0.10	5/0.50	10/1.00	7/0.70	3/0.30	1/0.10
Relative cost position	0.35	5/1.75	10/3.50	3/1.05	1/0.35	4/1.40
Customer service capabilities	0.15	5/0.75	7/1.05	10/1.50	1/0.15	4/1.60
Sum of weights	**1.00**					
Weighted overall strength rating		**6.20**	**8.20**	**7.00**	**2.15**	**4.90**

Source:Thompson, Arthur and A.J Strickland (1999). *Strategic Management: Concept and Cases (11th Edition)*. Irwin-McGraw Hill, Boston, pp128.

Questions

Compare and contrast the competitive position which emerges from both the weighted and un-weighted analysis. What are the drawbacks with the un-weighted analysis?

On the basis of the weighted analysis which organisation has the superior competitive position?

References

Reading

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Further Reading

Reading

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