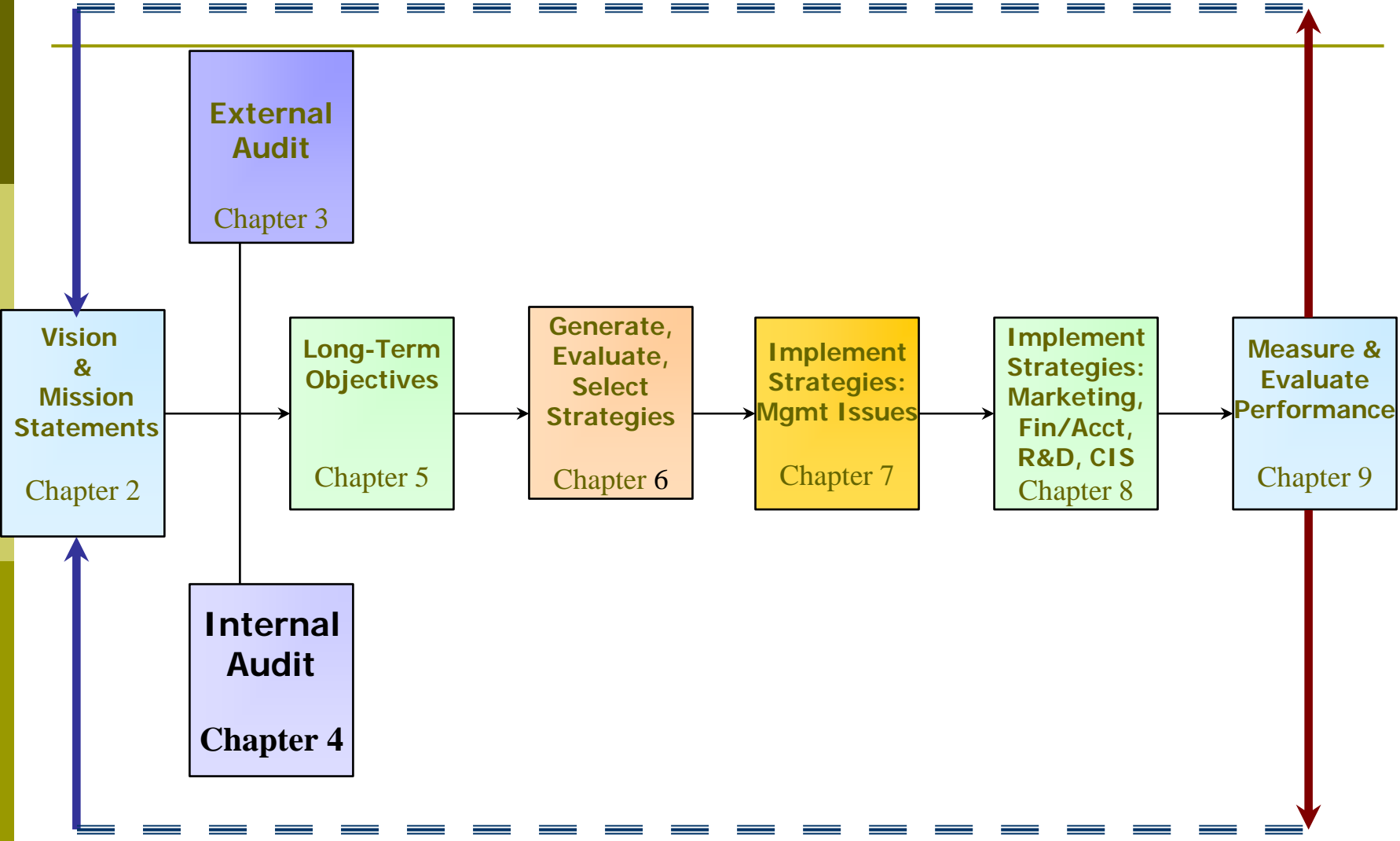


# Chapter 4: Internal Assessment



# Comprehensive Strategic Management Model



# Internal Assessment (Cont'd)

## Internal Strategic Management Audit

- *Functional areas of the business*
  - *Strengths*
  - *Weaknesses*

# Internal Assessment (Cont'd)

## Internal Audit:

*Focuses on developing objectives and strategies to capitalize on internal strengths and overcome weaknesses*

# Internal Assessment (Cont'd)

## Distinctive Competencies

- ✓ A firm's strengths that cannot be easily matched or imitated by competitors
- ✓ Building competitive advantage involves taking advantage of distinctive competencies
- ✓ Strategies designed in part to improve on a firm's weaknesses and turn to strengths

# Internal Assessment (Cont'd)

## Internal Audit

Gather & assimilate information from:

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

# Internal Assessment (Cont'd)

## Internal Audit

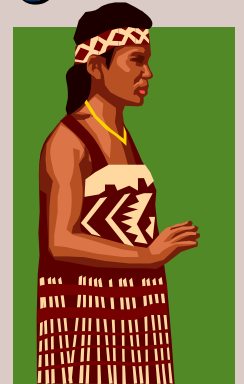
*Involvement in performing an internal strategic-management audit provides vehicle for understanding nature and effect of decisions in other functional business areas of the firm*

# Internal Assessment (Cont'd)

## Integrating Strategy and Culture

*Organizational Culture –*

Pattern of behavior developed by an organization as it learns to cope with its problem of external adaptation and internal integration and that has worked well enough to be considered valid and taught to new members as the correct way to perceive, think and feel.



# Internal Assessment (Cont'd)

## Organizational Culture

- Resistant to change
- May represent a strength or weakness of firm
  - Cultural *products* include:  
*Values, beliefs, rites, rituals, ceremonies, myths, stories, legends, sagas, language, symbols, heroes*



# Internal Assessment (Cont'd)

## Organizational Culture

Can inhibit strategic management:

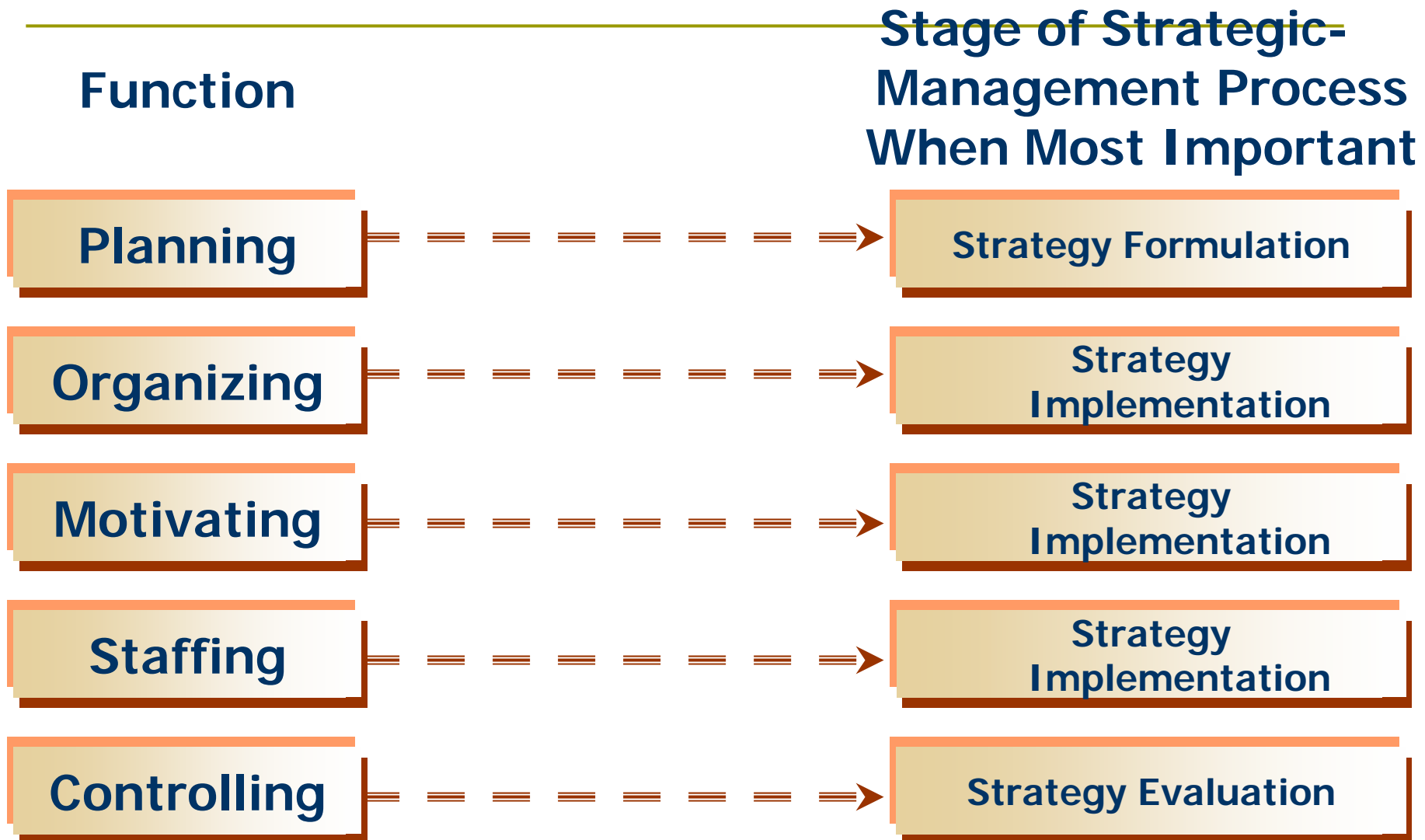
- ❑ Miss changes in external environment because they are blinded by strongly held beliefs
- ❑ When a culture has been effective in the past, natural tendency to stick with it in future, even during times of major strategic change

# Internal Assessment (Cont'd)

## Management

- Planning
- Organizing
- Motivating
- Staffing
- Controlling

# Internal Assessment (Cont'd)



# Internal Assessment (Cont'd)

## Management

**Planning**



**Forecasting**

**Establishing objectives**

**Devising strategies**

**Developing policies**

**Setting goals**

# Internal Assessment (Cont'd)

Management

Organizational design  
Job specialization  
Job descriptions  
Job specifications  
Span of control  
Unity of command  
Coordination  
Job design  
Job analysis

Organizing



# Internal Assessment (Cont'd)

**Management**

**Motivating**

Leadership  
Communication  
Work groups  
Job enrichment  
Job satisfaction  
Needs fulfillment  
Organizational change  
Morale

# Internal Assessment (Cont'd)

**Management**

**Staffing**

Wage & salary admin  
Employee benefits  
Interviewing  
Hiring  
Firing  
Training  
Management  
development  
Safety  
Affirmative action  
EEO  
Labor relations  
Career development  
Discipline procedures

# Internal Assessment (Cont'd)

**Management**



**Controlling**



Quality control  
Financial control  
Sales control  
Inventory control  
Expense control  
Analysis of variances  
Rewards  
Sanctions

# Internal Assessment (Cont'd)

## Management Audit Checklist

- ❑ Does the firm use strategic-management concepts?
- ❑ Are company objectives and goals measurable and well communicated?
- ❑ Do managers at all hierarchical levels plan effectively?
- ❑ Do managers delegate authority well?
- ❑ Is the organization's structure appropriate?

# Internal Assessment (Cont'd)

## Management Audit Checklist (Cont'd)

- Are job descriptions and job specifications clear?
- Is employee morale high?
- Are employee turnover and absenteeism low?
- Are organizational reward and control mechanisms effective?

# Internal Assessment (Cont'd)

## Marketing

- Customer analysis
- Selling products/services
- Product and service planning
- Pricing
- Distribution
- Marketing research
- Opportunity analysis

# Internal Assessment (Cont'd)

**Marketing**

Customer analysis



**Customer surveys**

**Consumer information**

**Market positioning strategies**

**Customer profiles**

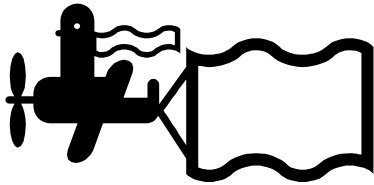
**Market segmentation strategies**



# Internal Assessment (Cont'd)

**Marketing**

**Selling  
Products/services**



**Advertising**

**Sales**

**Promotion**

**Publicity**

**Sales force  
management**

**Customer relations**

**Dealer relations**

# Internal Assessment (Cont'd)

**Marketing**

**Test marketing**

**Brand positioning**

**Devising warranties**

**Packaging**

**Product  
features/options**

**Product style**

**Quality**

**Product/service  
planning**



# Internal Assessment (Cont'd)

**Marketing**

**Pricing**

**Forward integration**

**Discounts**

**Credit terms**

**Condition of sale**

**Markups**

**Costs**

**Unit pricing**

# Internal Assessment (Cont'd)

Marketing



Warehousing

Channels

Coverage

Distribution



Retail site locations

Sales territories

Inventory levels

Transportation

# Internal Assessment (Cont'd)

**Marketing**

Marketing research



**Data collection**

**Data input**

**Data analysis**

**Support all business  
functions**

# Internal Assessment (Cont'd)

**Marketing**

Opportunity  
analysis



**Assessing costs**

**Assessing benefits**

**Assessing risks**

**Cost/benefit/risk  
analysis**

# Internal Assessment (Cont'd)

## Marketing Audit Checklist

- ❑ Are markets segmented effectively?
- ❑ Is the organization positioned well among competitors?
- ❑ Has the firm's market share been increasing?
- ❑ Are present channels of distribution reliable and cost effective?
- ❑ Does the firm have an effective sales force?

# Internal Assessment (Cont'd)

## Marketing Audit Checklist (Cont'd)

- ❑ Does the firm conduct market research?
- ❑ Are product quality and customer service good?
- ❑ Are the firm's products/services priced appropriately?
- ❑ Does the firm have an effective promotion, advertising, and publicity strategy?

# Internal Assessment (Cont'd)

## Marketing Audit Checklist (Cont'd)

- Are marketing planning and budgeting effective?
- Do the firm's marketing managers have adequate experience and training?

# Internal Assessment (Cont'd)

## Finance/Accounting

- Investment decision (Capital budgeting)
- Financing decision
- Dividend decision



# Internal Assessment (Cont'd)

## Financial ratios

- *Firm's ability to meet its short-term obligations*

### Ratios

Liquidity ratios



Current ratio

Quick  
(or acid-test)  
ratio



# Internal Assessment (Cont'd)

Financial ratios

Leverage ratios



- *Extent of debt financing*

Ratios

Debt-to-total-assets

Debt-to-equity

Long-term debt-to-equity

Times-interest earned

# Internal Assessment (Cont'd)

**Financial ratios**

- *Effective use of firm's resources*

## Ratios

**Inventory-turnover**

**Fixed assets turnover**

**Total assets turnover**

**Accounts receivable turnover**

**Average collection period**

**Activity ratios**



# Internal Assessment (Cont'd)

## Financial ratios

### Profitability ratios



- *Effectiveness shown by returns on sales and investment*

### Ratios

Gross profit margin

Operating profit margin

Net profit margin

Return on total assets (ROA)

# Internal Assessment (Cont'd)

**Financial ratios**

**Profitability ratios  
(continued)**

- *Effectiveness shown by returns on sales and investment*

Ratios

**Return on stockholders' equity  
(ROE)**

**Earnings per share**

**Price-earnings ratio**

# Internal Assessment (Cont'd)

Financial ratios

Growth ratios

- *Firm's ability to maintain economic position*

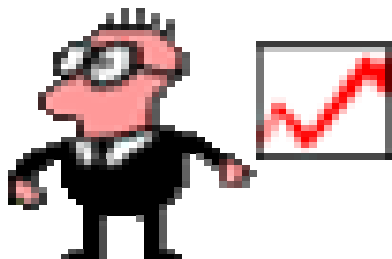
Ratios

Sales

Net income

Earnings per share

Dividends per share



# Internal Assessment (Cont'd)

## Finance/Accounting Audit Checklist (Cont'd)

- Where is the firm strong and weak as indicated by financial ratio analysis?
- Can the firm raise needed short-term capital?
- Can the firm raise needed long-term capital through debt and/or equity?
- Does the firm have sufficient working capital?
- Are capital budgeting procedures effective?

# Internal Assessment (Cont'd)

## Finance/Accounting Audit Checklist

- Are dividend payout policies reasonable?
- Does the firm have good relations with its investors and stockholders?
- Are the firm's financial managers experienced and well trained?

# Internal Assessment (Cont'd)

## Production/Operations

- Process
- Capacity
- Inventory
- Workforce
- Quality

# Internal Assessment (Cont'd)

**Production/Operations**

**Process**



**Design of facility**

**Choice of technology**

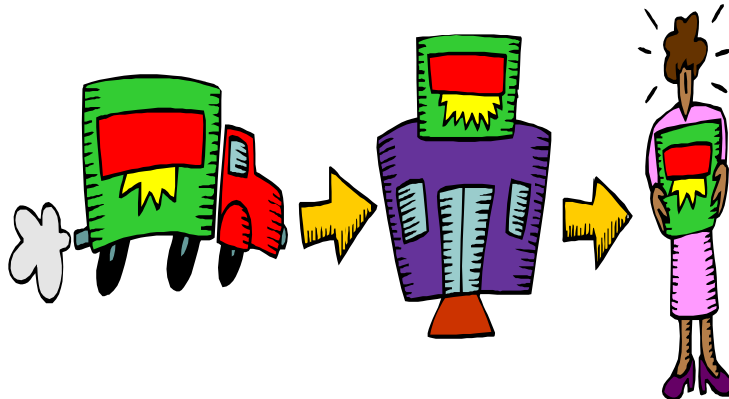
**Facility layout**

**Process flow analysis**

**Facility location**

**Line balancing**

**Process control**



# Internal Assessment (Cont'd)

**Production/Operations**

**Capacity**



**Forecasting**

**Facilities planning**

**Aggregate planning**

**Scheduling**

**Capacity planning**

**Queuing analysis**

# Internal Assessment (Cont'd)

**Production/Operations**

**Inventory**



**Raw material**

**Work in process**

**Finished goods**

**Materials handling**



# Internal Assessment (Cont'd)

**Production/Operations**

**Workforce**



**Job design**

**Work measurement**

**Job enrichment**

**Work standards**

**Motivation techniques**

# Internal Assessment (Cont'd)

**Production/Operations**

**Quality**



**Quality control**

**Sampling**

**Testing**

**Quality assurance**

**Cost control**

# Internal Assessment (Cont'd)

## Production/Operations Audit Checklist

- Are suppliers of raw materials, parts, and subassemblies reliable and reasonable?
- Are facilities, equipment, machinery, and offices in good condition?
- Are inventory-control policies and procedures effective?

# Internal Assessment (Cont'd)

## Production/Operations Audit Checklist (Cont'd)

- Are quality-control policies and procedures effective?
- Are facilities, resources, and markets strategically located?
- Does the firm have technological competencies?

# Internal Assessment (Cont'd)

## Research & Development

- Development of new products before competition
- Improving product quality
- Improving manufacturing processes to reduce costs



# Internal Assessment (Cont'd)

**Research & Development**

**R&D budgets**



**Financing as many projects as possible**

**Use percentage-of-sales method**

**Budgeting relative to competitors**

**Deciding how many successful new products are needed**

# Internal Assessment (Cont'd)

## Research & Development Audit Checklist

- ❑ Does the firm have R&D facilities? Are they adequate?
- ❑ If outside R&D firms are used, are they cost effective?
- ❑ Are the organization's R&D personnel well qualified?
- ❑ Are R&D resources allocated effectively?

# Internal Assessment (Cont'd)

## Research & Development Audit Checklist (Cont'd)

- Are management information and computer systems adequate?
- Is communication between R&D and other organizational units effective?
- Are present products technologically competitive?

# Internal Assessment (Cont'd)

## Computer Information Systems

- Information Systems
- CIO
- Security
- User-friendly
- E-commerce



# Internal Assessment (Cont'd)

## Computer Information Systems Audit Checklist

- ❑ Do all managers in the firm use the information system to make decisions?
- ❑ Is there a chief information officer or director of information systems position in the firm?
- ❑ Are data in the information system updated regularly?

# Internal Assessment (Cont'd)

## Computer Information Systems Audit Checklist (Cont'd)

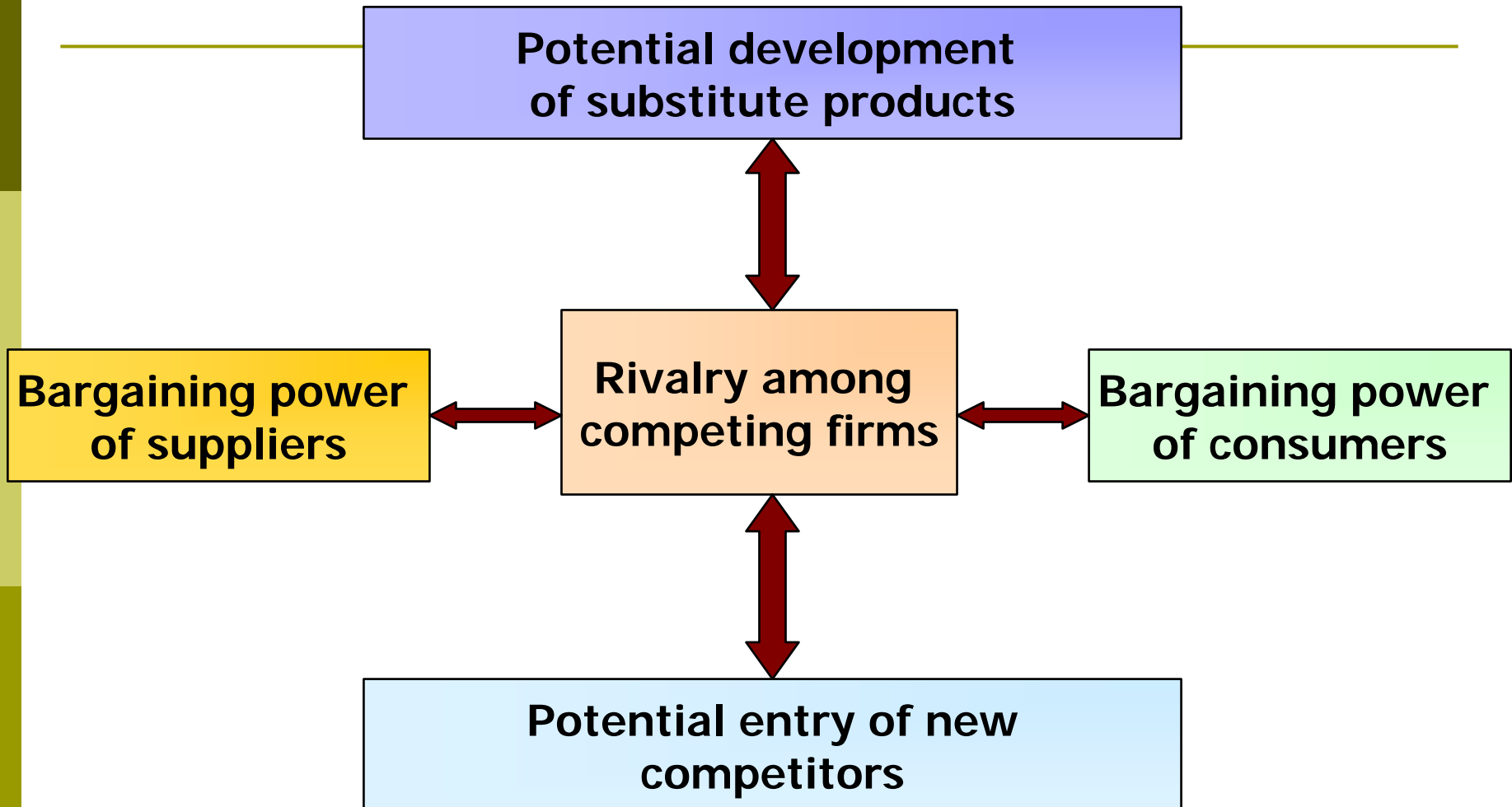
- ❑ Do managers from all functional areas of the firm contribute input to the information system?
- ❑ Are there effective passwords for entry into the firm's information system?
- ❑ Are strategists of the firm familiar with the information systems of rival firms?

# Internal Assessment (Cont'd)

## Computer Information Systems Audit Checklist (Cont'd)

- Is the information system user-friendly?
- Do all users of the information system understand the competitive advantages that information can provide firms?
- Are computer training workshops provided for users?
- Is the firm's system being improved?

# Competitive Analysis: Porter's Five-Forces Model



# Internal Analysis (IFE)

## Five-Step Process:

- List key internal factors (10-20)
  - Strengths & weaknesses
  
- Assign weight to each (0 to 1.0)
  - Sum of all weights = 1.0

# Internal Analysis (IFE) (Cont'd)

## Five-Step Process: (Cont'd)

- Assign 1-4 rating to each factor
  - Firm's current strategies response to the factor
  
- Multiply each factor's weight by its rating
  - Produces a weighted score

# Internal Analysis (IFE) (Cont'd)

## Five-Step Process: (Cont'd)

- Sum the weighted scores for each
  - Determines the total weighted score for the organization
  
  - Highest possible weighted score for the organization is 4.0; the lowest, 1.0. Average = 2.5

# Circus Circus

## *Internal Strengths*

	Weight	Rating	Weighted score
Largest casino company in world	.05	4	.20
Room occupancy rates over 95%	.10	4	.40
Increasing free cash flows	.05	3	.15
Owns 1 mile on Las Vegas strip	.15	4	.60
Strong management team	.05	3	.15
Buffets at most facilities	.05	3	.15
Minimal comps provided	.05	3	.15
Long-range planning	.05	4	.20
Reputation as family-friendly	.05	3	.15
Financial ratios	.05	3	.15

Circus Circus <i>Internal Weaknesses</i>	Weight	Rating	Weighted score
Most properties located in Las Vegas	.05	1	.05
Little diversification	.05	2	.10
Family reputation, not high rollers	.05	2	.10
Laughlin properties	.10	1	.10
Recent loss of joint ventures	.10	1	.10
TOTAL (including Strengths)	1.0		2.75

## Internal Analysis (IFE) (Cont'd)

Circus Circus (in the previous example), has a total weighted score of 2.75 indicating that the firm is above average in its overall internal strength