




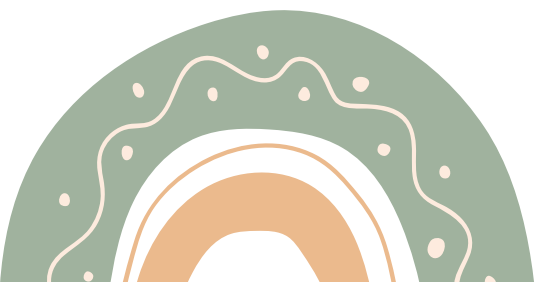
# INTERNAL ASSESSMENT

week 5



# Internal Audit

**means: Identify strengths  
and weaknesses in:**

- Management
  - Marketing
  - Finance and accounting
  - Production and operation
  - Research and development
  - Management information system
- 
- 



# Key Internal Forces

## **DISTINCTIVE COMPETENCIES**

Competencies that make one company different from its competitors

Competitors can't easily imitate or matched



# Key Internal Forces

## **DISTINCTIVE COMPETENCIES**

It's a starting point to make competitive advantages

Building competitive advantage involves taking advantage of distinctive competencies





MUST INVOLVE ALL  
MANAGERS AND  
EMPLOYEES

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



**Internal Audit  
Process**



Exemplifies complexity of relationships among functional areas of the business

# Internal Audit

# Internal Audit Process

## GATHER INFORMATION FROM:

Management, marketing, finance,  
accounting, production and operation,  
research and development, Management  
Information System

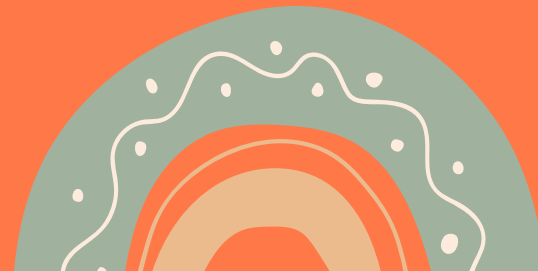




# Internal Audit


Managers and employees  
from all areas provide  
information

A team of managers then  
selects 10 to 15 (20 in  
Fred David) key  
organizational strengths  
and weaknesses to focus  
on





INTERNAL ASSESSMENT



**Resource Based  
View (RBV)**



EXTERNAL ASSESSMENT

# Resource Based View

Three All-Encompassing Categories



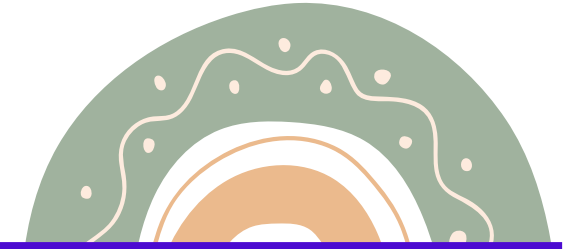
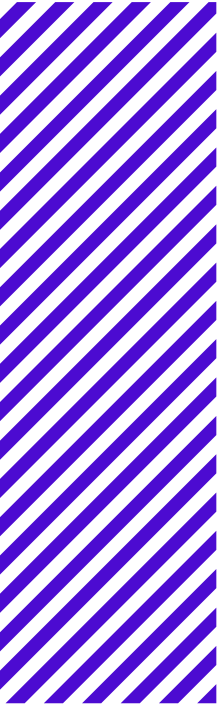
**PHYSICAL  
RESOURCES**



**HUMAN RESOURCES**



**ORGANIZATIONAL  
RESOURCES**



# Resource Based View (RBV)

Empirical Indicators



**RARE**

**HARD TO IMITATE**

**NOT EASILY  
SUBSTITUTABLE**



# 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 . . . is considered valid and taught to new members as the correct way to perceive, think, and feel



RESISTANT TO CHANGE



**Integrating Strategy and  
Culture:  
Organizational Culture**

MAY REPRESENT BOTH  
STRENGTH AND  
WEAKNESS



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

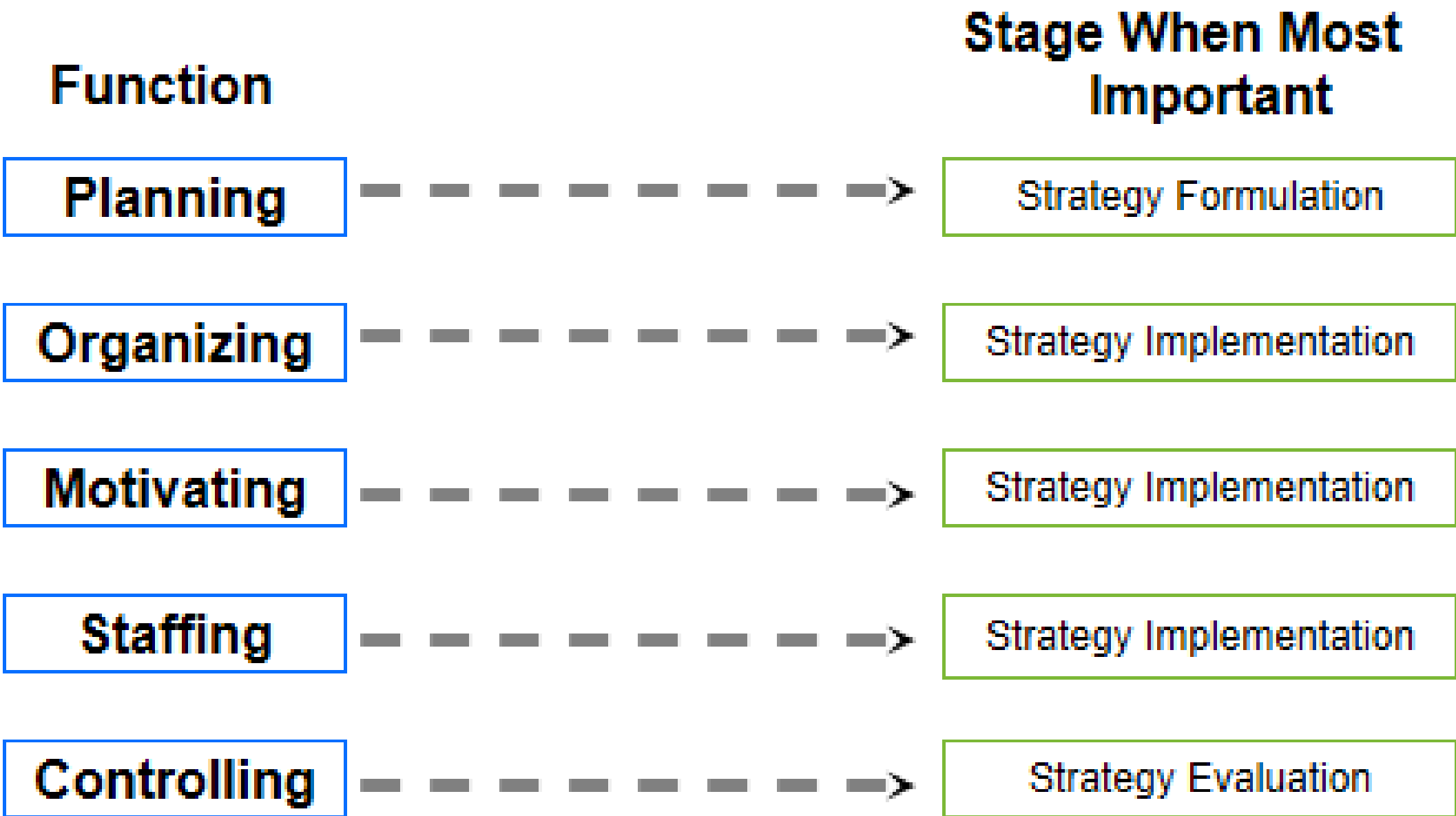


# Management

- Planning
- Organizing
- Motivating
- Controlling



# Management








# Planning (for synergy)



Can develop through planning

Exists when everyone pulls together as a team that knows what it wants to achieve









## "CUSTOMER NEEDS AND WANTS"

- Defining
- Anticipating
- Creating
- Fulfilling




**Marketing**




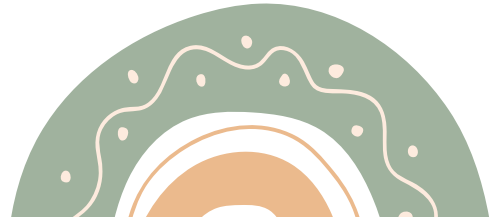
- Investment decision (Capital Budgeting)
- Financing Decision
- Dividend Decision


# Finance/ Accounting




# Finance/ Accounting Audit




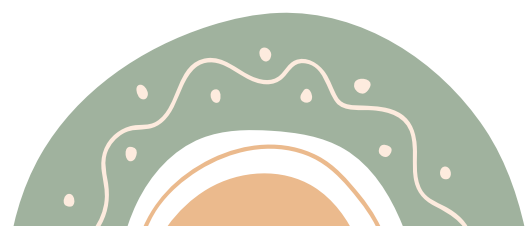
- Where is the firm financially strong/weak as indicated by financial ratio analysis?
  - Can the firm raise needed short-term capital?
  - Can the firm raise needed long-term capital through debt and/or equity?
  - Does the firm have sufficient working capital?
  - Are capital budgeting procedures effective?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



# Finance/ Accounting Audit



- 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?
  - Is the firm's debt situation excellent?
- 





# Production/ Operations

## PRODUCTION/OPERATION FUNCTION

- Process
- Capacity
- Inventory
- Workforce
- Quality





# Research and Development

## RESEARCH AND DEVELOPMENT FUNCTION

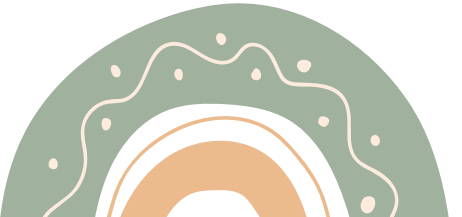

- Development of new products before competitors
- Improving product quality
- Improving manufacturing processes to reduce costs
- These functions can be done internally or externally



# Management Information System

## **PURPOSE**


Improve performance of  
an enterprise by  
improving the quality of  
managerial decisions



THE PROCESS WHEREBY A FIRM DETERMINES THE COSTS ASSOCIATED WITH:

- Purchasing raw materials
- Manufacturing products
- Marketing products

AND COMPARES THEM TO THE VALUE CHAIN OF RIVAL FIRMS



# Value Chain Analysis



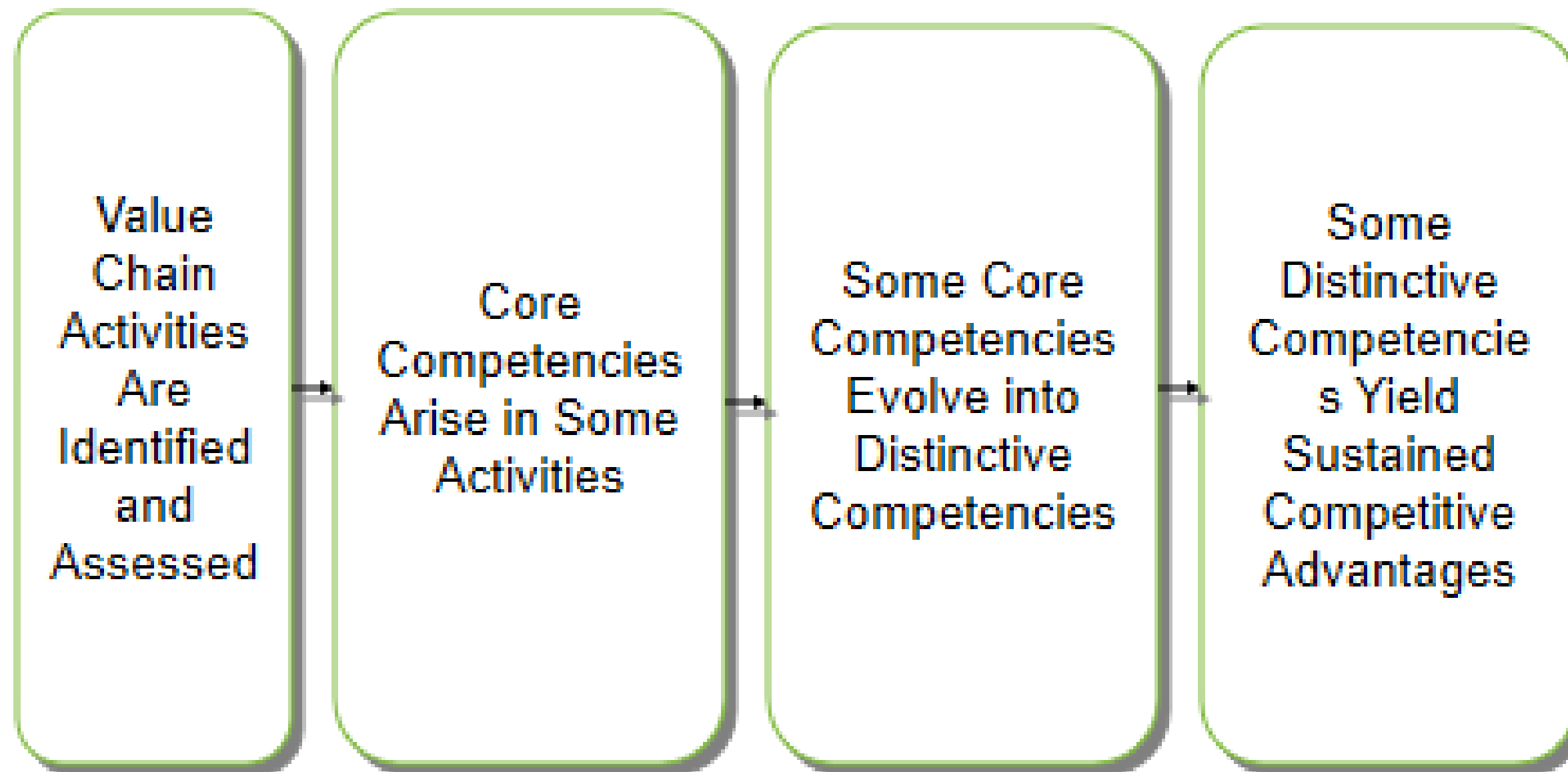
# Value Chain Analysis

Core Competencies

Distinctive  
competencies

Benchmarking

## Transforming Value Chain Activities into Sustained Competitive Advantage



- List key internal factors
- Assign a weight ranging from 0.0 to 1.0
- Assign a 1 to 4 rating to each factor
- Multiply the weight times the rating
- Sum the weighted scores



## Internal Factor Evaluation (IFE) Matrix