Practical Useful Techniques for Performing Strategic Internal Status Analysis

Author Details: H. Butuner- President of Industrial Management and Engineering Co., Istanbul
President of Institute of Industrial Engineers (IIE) Turkey Professional Chapter, Istanbul

Abstract
The purpose of this paper is helping businesses to answer the questions of "where are we?" in a practical and beneficial way. Internal status analysis begins with a short history of the business and lays down the policies followed and performances demonstrated by the business during recent years within the framework of its mission, and assesses its conformity to overall goals, target groups and general strategies, etc. This requires a comprehensive internal comparison analysis.
While an internal status analysis is performed within the business, the past performance of business is evaluated as well as its strengths and weaknesses are put forth. The purpose is to identify the potential of the business by taking into consideration its existing and past performances and problems.
In short, this paper helps businesses to identify and evaluate their strategic internal factors by offering them totally a new practical and effective analysis technique.
Keywords: *internal analysis, status analysis, strategy, strengths, SWOT, weaknesses*

Introduction

To develop or revise a strategy, a business would identify its credentials on which success will most likely depend. Therefore, performing intra-business assessment and accordingly identifying the internal strengths and weaknesses of the business are essential for this purpose.

Internal status analysis begins with a short history of the business and lays down the policies followed and performance demonstrated by the business during recent years within the framework of its mission. Thus, the conformity of goods and/or services produced by the business to the overall goals and policies, how the business serves its target group, the general strategies adopted in this respect, etc. are analyzed. Additionally, internal structure of the organization (duties and authorities, performances, problems, potentials, institutional culture, human resources, technology level, etc.) is analyzed as well.
Instruments like documentation review, interview, survey and similar studies, and participatory meetings bringing together various groups concerning the business are used while performing internal status analysis. For the efforts to be made in this scope, it is possible to outsource specialized services, such as the use of facilitators (moderators) who will neutrally facilitate participatory meetings.
The findings obtained as a result of internal status analysis are reported systematically, evaluated by responsible individuals and teams and used in the further phases of planning process.
The purpose of this paper is to help businesses to answer the question of "*where are we?*" in an effective way. This requires using practical and beneficial techniques during the comprehensive internal analysis.

1. Internal Analysis

While an internal status analysis (Figure 1) is performed within the business, the past performance of business is evaluated as well as its strengths and weaknesses are put forth. The purpose is to identify the potential of the business taking into consideration its existing performance and problems.

This is accomplished by identifying and then evaluating strategic internal factors. What are strategic internal factors? Where do they originate? How do we decide which are truly strategic factors that must be carefully evaluated? These questions might be raised in identifying and evaluating key internal factors as strengths or weaknesses on which to base the strategy.

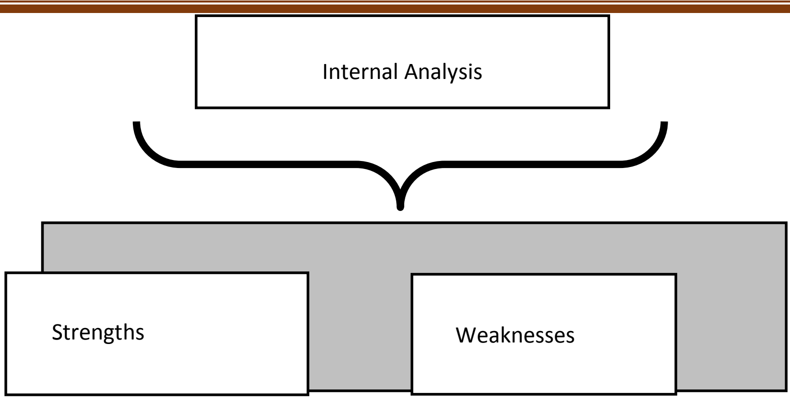

Figure 1. Internal Analysis

2. Functional Approach

Strategic internal factors are a business' basic capabilities, limitations, and characteristics. Diagnosing a business' key strengths and weaknesses requires the adoption of a disaggregated view of the business. Examining the business across distinct functional areas (Table 1), as suggested above is one way to disaggregate the business for internal analysis purposes (Butuner, 2015).

Therefore, the business should examine past performance to isolate key internal contributors to favorable (or unfavorable) results. What did we do well, or poorly, in sales operations, and financial operations, and financial management that had a major influence on past results? Was the sales force effectively organized? Were we in the right channels of distribution? Did we have the financial resources to support the past strategy?

Table 1. Functional Approach – Example Business

	Factors	**Strengths/ Weaknesses**
MARKETING		
	Firm's products /services; breadth of product line	+
	Concentration of sales in a few products or to a few customers	-
	Ability to gather needed information about markets	+
	Market share or submarket shares	+
	Product / service mix and expansion potential	+
	Channels of distribution: number, coverage and control	+
	Effective sales organization	+
	Product / service image, reputation and quality	-
	Imaginative, efficient and effective sales promotion and advertising	-
	Pricing strategy and pricing flexibility	-
	Procedures for digesting market feedback and developing new products, services or markets	-
	After-sale service and follow up	-
	Goodwill/brand loyalty	-
FINANCE and ACCOUNTING	Ability to raise short-term capital	-
	Ability to raise long-term capital: debt/equity	+
	Corporate-level resources	-
	Cost of capital relative to industry and competitors	-
	Tax considerations	+
	Relations with owners, investors and stockholders	+
	Leverage positions	+
	Cost of entry and barriers to entry	-
	Price-earnings ratio	+

	Working capital; flexibility of capital structure	-
	Effective cost control, ability to reduce costs	+
	Financial size	-
	Efficient and effective accounting system for cost, budget and profit planning	-
PRODUCTION/ TECHNICAL	Raw materials cost and availability	-
	Inventory control systems; inventory turnover	-
	Location of facilities; layout and utilization of facilities	+
	Economies of scale	+
	Technical efficiency of facilities and utilization of capacity	+
	Effective use of subcontracting	-
	Degree of vertical integration, value added and profit margin	+
	Efficiency and cost / benefit of equipment	+
	Effective operation control procedures	+
	Cost and technological competencies relative to industry and competitors	+
	Research and development/technology/innovation	+
	Patents, trademarks and similar legal protection	+
PERSONNEL	Management personnel	+
	Employees' skill and morale	+
	Labor relations cost compared to industry and competition	+
	Efficient and effective personnel policies	-
	Effective use of incentives to motivate performance	+
	Ability to level peaks and valleys of employment	+
	Employee turnover and absenteeism	+
	Specialized skills	+
	Experience	-
ORGANIZATION / GENERAL MANAGEMENT	Organizational structure	-
	Firm's image and prestige	-
	Firm's record for achieving objectives	-
	Organization of communication system	+
	Overall organizational control system	+
	Organizational climate, culture	-
	Use of systematic procedures and techniques in decision making	-
	Top-management skill, capacities and interest	+
	Strategic planning system	+
	Intraorganizational synergy	+

An example is illustrated on a business history summary worksheet (Table 2). The same examination and questions can be applied to business' current situation, with particular emphasis on changes in the importance of key dimensions over time (Butuner, 2015).

For example, analysis of past trends in sales, costs, and profitability is of major importance in identifying strategic internal factors. An anatomy of past trends broken down by product lines, channels of distribution, key customers or types of customers, geographic region, sales approach, etc. should be developed in detail (Nickels and McHugh, 2002). A business may determine that certain key internal factors (e.g., experience in particular distribution channels, pricing policies, warehouse location, and technology) deserve major attention in formulating future strategy.

Numerous quantitative tools are available for evaluating selected internal capabilities of a business (Keown and Martin, 2001). These entail measurement of a business' effectiveness vis-a-vis each relevant factor and comparative analysis of this measurement against the historical experience of the business. Ratio analysis is useful for evaluating, selected financial, sales, and operating factors. The business' balance sheet and income statements are important sources from which to derive meaningful ratios. Examples of other quantitative or analytical tools include cash flow analysis, sensitivity analysis, and elasticity and variability analysis.

Quantitative tools cannot be applied to all internal factors, and the judgments of key planning participants may be used in evaluation. Company or product image and prestige are examples of internal factors more appropriate to qualitative evaluation.

3. Value-Added Approach

Another way to disaggregate the business to use a framework called the *value chain* (Porter, 1998). A value chain is a systematic way of viewing the series of activities a business performs to provide a product to its customers.
Every business can be viewed as a collection of value functions that are performed to design, produce, market, deliver, and support its products. These functions can be grouped into nine basic categories within each category functions represent key strengths or weaknesses of the business. Through the systematic identification of these discrete functions, using the value chain approach can target potential strengths and weaknesses for further evaluation.

Table 2. Business History Summary – Example Business

	Year 2012	**Year 2013**	**Year 2014**	**Year 2015**
PERSONNEL		No. of employees: 5 4 Clerks, 5 Labors	No. of employees: 10 5 Clerks, 5 Labors	No. of employees: 40 15 Clerks, 25 Labors
ORGANIZATION and GENERAL MANAGEMENT				A flexible organization chart Production and R&D dept. Sales dept. Dealer network After-sales dept.
PRODUCTION / TECHNICAL		Order based production (JIT)	Improved delivery dates	Increased production lines and capacity

MARKETING			Delivered demo units to major hospitals and rehabilitation centers Face-to-face selling and demonstrations	Increased brand awareness Attended to local fairs and advertised on the industrial magazines Established local dealer network
FINANCE and ACCOUNTING (x1000)		0.05% of Turkish wheelchair market 50 units sold	0, 5% of the Turkish wheel chair market 500 units sold	2.5% of the Middle Eastern and Caucasian wheel chair markets; 10.000 units sold

Primary functions:

Primary functions are those involved in the physical creation of the business' product or service, delivery and sales to the buyer, and it's after sale support. Overarching each of these are support functions, which provide inputs or infrastructure allowing the primary functions to take place on an ongoing basis. Identifying primary functions requires the isolation of functions that are technologically and strategically distinct. Each of the five basic categories is divisible into several distinct functions:

- Inbound logistics
- Operations
- Outbound logistics
- Marketing and sales
- Service

The primary functions depend on the particular industry. For example, for a food distributor, inbound and outbound logistics are most critical areas. After sale service is becoming increasingly critical to automotive dealerships. Yet, all the primary functions are present to some degree and deserve attention in a systematic internal analysis.

Support functions:

Support value functions arise in one of four categories and can be identified or disaggregated by isolating technologically or strategically distinct functions. These four areas can typically be distinguished as follows:

- Procurement
- Technology development
- Human resource management
- Business infrastructure

The value chain provides a useful approach to guide a systematic internal analysis of the business' existing or potential strengths and weaknesses. Disaggregating a business into nine function categories, the business has identified key internal factors for further examination as potential sources of competitive advantage.

In this approach, it is important to correctly figure out the organizations (Butuner, 2015)

- Value added chain
- Functions
- Process flow charts demonstrating the linkages between value added chain and functions

1. This starts with the definition of the business:

- What is being done in the organization? Production, marketing, distribution, purchasing, etc.
- Creation of process flow charts: How and for what purpose are operations performed? The processes within the rings making up the value added chain and the process flow charts constituting these processes. For example, process of the product sold from the warehouse and its shipment, or various processes during production stage, etc.
- Analysis of the organization chart: Where and by whom are the operations performed? Review of departments and functions of departments, assignment of employees, positions of departments, job descriptions, and characteristics, etc.

2. Definition of organization functions:

- Making the business definition.
- Determination of value chain.
- Determination of processes composing the rings of the chain and of work flow schemes.
- Expansion of processes and flow schemes and definition of work units.
- Determination of parameters and variables affecting the work units.
- Determination of the effects of these variables on the expense and profit centers.
- Grouping and consolidation of variables according to their effects.
- Determination of relations among expense and profit centers by processes and their schemes.

3. Definition of organization structure:

- Evaluation of the organization scheme. Comparison of organization scheme, work groups, and positions and the functions of organization.
- Business groups of each department till to the lowest levels and its development to define the work units.
- Making job and duty definitions on the basis of work unit.
- Determination of characteristics required for each work unit and position.
- Determination of variables affecting these characteristics.
- Determination of the position which is most affected by each variable.
- Grouping and consolidation of variables according to their impacts.
- Determination of relations among positions on the flow schemes.

4. Analysis of variables and critical processes:

- Examination of correlation among the variables determined as a result of the evaluation of value chain and organization scheme, and grouping the ones that are related to each other.
- Determination of parameters that are measurable and that can be expressed numerically. Separating and grouping as the ones that can be and can't be expressed numerically and as dependent and independent variables.
- Composition of relations matrix and examination of the relations among all the variables.
- Determination of variables that affect the others at most but that are not affected from any variable within the organization and that are out of the control of the organization (external variables.)
- Determination of variables that affect the others at most but that are not affected from any variable outside the organization (internal variables.)
- Aligning the variables that are considered to affect each expense and profit center at most in the order of significance and composition of value effect matrix.
- According to the composed value effect matrix, laying out the processes and work flow schemes where each variable exists.
- Determination of critical processes that will compose in case of having variables that have correlation with each other and that have high effect within the same processes.
- In order to determine the aforementioned issues, for example, the following questions are required to be answered starting from the lowest level of the organization and as objective as possible considering the current work flows and organization structure and the answers shall be evaluated by a higher level.

5. Thus, critical processes where company performances can't be expressed numerically will be revealed:

- What are we doing?
- What do we do best?
- What can't we do best?
- Where do we want to be?

4. Strengths and Weaknesses of a Business

The considerations revealed by *Functional* or *Value-Added* approach are grouped under various functional headings such as general management, human resources, operations/technology, marketing, finance and accounting, and their distinction as things done well and poorly are outlined in a summary table (Table 3).

Conclusion

Internal status analysis begins with a short history of the business and lays down the policies followed and performances demonstrated by the business during recent years within the framework of its mission, and assesses its conformity to overall goals, target groups and general strategies, etc. This requires a comprehensive internal comparison analysis.

While an internal status analysis is performed within the business, the past performance of business is evaluated as well as its strengths and weaknesses are put forth. The purpose is to identify the potential of the business by taking into consideration its existing and past performances and problems.

Doing so, businesses should find ways to answer the questions of "*where are we?*" in an effective way. This requires using practical and beneficial techniques during the comprehensive internal analysis. Accordingly, the purpose of this paper comes into picture and that is to help businesses to identify and evaluate their strategic internal factors by offering them totally a new practical and effective analysis technique.

Table 3. Business Strengths and Weaknesses Summary – Example Business

	Strengths	**Weaknesses**
ORGANIZATION and GENERAL MANAGEMENT	1.Flexible and horizontal relations facilitate decision making 2. Participatory and sharing management 3. Broad investment vision 4. Prestigious company name 5. Experienced management staff undertaking responsibilities 6. Strategic planning and budget discipline	1. Lack of continuity in organization 2. Corporate culture not matured 3. Instant decision-making, quick give-up of decisions taken
PERSONNEL	1. Competent, experienced and responsible staff 2. Qualified and young labor force 3. Specialized staff	1. Motivational instruments lacking 2. High employee turn-over rate 3. No career plan 4. Stressful environment, fatigue factor

PRODUCTION / OPERATIONS / TECHNICAL	1. Ease of raw material supply 2. Good suppliers relations 3. Registered trademarks 4. Effective use of subcontractors 5. Production control procedures applied 7. Effective quality control 8. Vertical integration 9. Technical team competence 10. Product development capacity 11. Development potential of products	1. Layouts disorganized in production units 2. No R&D investment, no budgeting 3. Single-site production and distribution channel 4. Low capacity utilization
MARKETING	1. Product diversity 2. Market leader 3. Pre-sales application service 4. Qualification and competence in distribution channels 5. Quality and branded products 6. Technical support department 7. Strong references 8. Post-sales support	1. Limited product range 2. Sales concentrated on specific products and customers 3. Collection of information about the industry depends on personal competencies 4. Distribution channels insufficient in technical and sophisticated products 5. Lack of sales organization 6. Product image and familiarity low in technical and sophisticated products 7. Marketing activities insufficient 8. Lack of customer relations management
FINANCE and ACCOUNTING	1. Automation and integration through system investments 2. Effective cost control 3. High credibility 4. Positive relations with shareholders, strong shareholding structure 5. High equity profitability 6. High working capital ratio 7. High profit margin 8. Long-term capital raising capacity 9. Image of a tax-paying and strong company	1. Investments financed totally from own resources 2. Claims collection time longer than debt payment time 3. Inventory management 4. Sales not collateralized

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