UNIT 6: ORGANISATIONAL APPRAISAL

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6.1 LEARNING OBJECTIVES

After going through this unit you will be able to:

- discuss the concept of Organisational Analysis
- outline the characteristics of Organisational Analysis
- learn about Strategic or Competitive Advantage
- describe the factors in Organizational Analysis:
- discuss the methods and techniques in Organization Analysis

6.2 INTRODUCTION

Essential components of carrying out an organizational analysis include evaluating external factors that can affect the organization's performance as well as strategically assessing the organization's own resources and potential. Internal strengths and weaknesses along with outside opportunities and threats are keys to an organization's success. SWOT analysis, which stands for strengths, weaknesses, opportunities and threats, is a strategic-planning method an organization's leaders often use to aid them in establishing business objectives or achieving the organization's mission

goals.Let us discuss the various aspects of orgnisational appraisal in the following sections

6.3 CONCEPT OF ORGANIZATIONAL ANALYSIS

Organizational Analysis is the process of evaluating systematically organizational capabilities which can give it competitive advantage in the market .The capabilities enable the organization to achieve strategic advantage for long term success. Organizational Analysis is also known as internal analysis, corporate appraisal, self approval, company analysis etc.

Organizational Analysis is the analysis of internal environment which refers to all factors within an organization that influence its capabilities to accomplish its strategic intent. The main purpose is to determine the capabilities of its strength and weakness of an organization. An organization may adopt an highly systematic approach to analyses. Proactive organization adopts a systematic approach on the other hand reactive organization use the ad hoc approach in response to the crisis. Both secondary and primary sources are used for collecting information needed for organizational analysis. Internal sources of information are employees opinion, company files and documents, financial statements and external sources includes newspapers, magazine, journals, government publications, trade and industry report etc.

6.4 CHARACTERISTICS OF ORGAINSATIONAL ANALYSIS

The important characteristic sor components of carrying out an organizational analysis includes evaluating external factors and Internal strenghts and weakness.The external factors are the organization's performance as well as strategically assessing the organization's own resources and potential and internal strengths, weaknesses along with outside opportunities and threats are keys to an organization's success.

A. Strengths: An organization's strengths are internal characteristics that can give it an advantage over competitors. Evaluating organizational strengths usually involves assessing current management, resources, manpower and marketing objectives. Generally, internal analysis examines an organization's available resources and core competencies. Determining the organization's capabilities helps its leaders make long-term plans and sound decisions. Other factors included in an internal analysis include taking a look at the organization's financial goals and strategic-planning initiatives, in addition to its exceptional strengths. Offering high quality products or services, building a solid reputation, maintaining strong financial health and investing in new technologies are some of the strong points an organization can focus on developing in order to improve its position within an industry. Efficient delivery of products or services and providing excellence of customer service are other positive factors.

B. Weaknesses: An organization's weaknesses are another example of internal characteristics that can affect its operations and level of performance. Identifying weaknesses helps organization to spot problems to make the necessary changes. This strategy allows decision makers to develop other more suitable alternatives in their strategic planning objectives when operations fail to perform as projected. Weaknesses may include poor leadership, low employee morale, weak financial, low cash flow, outdated technology and inefficient organizational functions or processes. One example of converting a weakness into strength might be how an organization that lacks adequate financial resources works to control costs in order to develop a more competitive advantage.

C. Opportunities: In general, external organizational analysis weighs the potential opportunities and threats that are present outside of the organization. External analysis may include market analysis, sizing up the competition and evaluating the impact of new technological advances. When assessing opportunities in the external environment, organizations must set out to identify current market and industry trends, potential niche markets and the weaknesses of major competitors. An organization should also

consider recent developments in technology as vehicles of opportunity. Innovation is a key to creating new opportunities; therefore, an organization that succeeds in setting itself apart from others has the chance to build up a strong competitive position in the industry. In order to accomplish this success, an organization must offer something different that its competitors are incapable to provide something better than the standard.

D. Threats: External risks are not always bad for an organization. For example, the labor market can pose either a potential threat or an opportunity depending on the state of the local, national and global economies. Legislation and government regulation are other factors that can have an effect on how well an organization performs. Whatever the case, the goal of an organization striving to succeed is to reduce the impact of external threats and work on improving its internal weaknesses. Organizations must be able to adapt and keep pace with the constant changes that occur in the environment outside of the organization.

6.5 STRATEGIC OR COMPETITIVE ADVANTAGE

The strategic advantage of an organization is developed through its resources, behavior strengths, weakness, synergistic effects, competencies and capability.Let us discuss these resources in the following points:

Organizational Resources: Organization resources contain all physical, human and financial resources. Plant and machinery, raw materials, geographical location and technology are the examples of physical resources. Human resources include intelligence, experience, training, judgment, relationship of members of an organization. Formal structures, systems and processes are also important resources. Valuable, scarce, inimitable, durable and non substitutable resources enable an organization to achieve strategic advantage and to achieve superior performance in the long run. Organisation which possesses superior resources can produce more efficiently, better satisfy customers, deliver better value for many and

thereby earn higher returns on investment. An organization obtains resources and its success depends on the cost, quality and adequacy of these resources .An organization have in low cost, high quality, and abundant resources has an enduring strength which can be used as strategic weapon against the competitors.

Organisatonal Behaviour: An organization does not become capable merely by acquiring resources. Its strength and success depends on an efficient utilization of these resources which in turn depends on the behavior of individuals and groups in an organization. Organizational behavior refers to the manifestation of various forces and influences operating within an organization that create the ability for, or place constraints on , the uses of resources. Several forces and influences such an management philosophy, organizational climate and culture, organizational politics and use of power shape organizational behavior. If resources are considered the hardware of an organization, behavior is its software. The two together create it strength and weaknesses.

Strength and Weaknesses: Strength is an inbuilt capability which an organization can use to gain strategic advantage over its competitors. On the other hand, a weakness is an inherent limitation or constraint which creates a strategic disadvantage for the organization. For example, low cost of capital is strength and inexperienced management is a weakness. Strength and weaknesses do not exist in isolation but combined within a functional area, and also across different functional area, to create synergistic effects.

Synergistic Effects: Synergy occurs when two element complement each other. It is popularly known as 2 + 2 = 5 Effect. In other words synergy means the whole is more/ less than some of its parts. /synergistic effects occur in an organization in many ways. For example, when marketing and production departments support each other there is a operating synergy. Within a functional area eg. Marketing, when product, pricing, distribution and promotion support each other there is a marketing synergy. Synergetic

effect can also be negative (2 + 2 = 3) . For example, conflict between marketing and production area leads to negative synergy. Synergistic effects influence the type and quality of the internal environment of an organization and many lead to development of competencies.

Competencies: An organization' competencies are its unique qualities that facilitate it's withstand its competitive pressure in market place. The ability of an organization to compete with its rival depends on its unique quality. Competencies may exist in a form of unique resources, core capabilities, surrounded knowledge, invisible asset, Etc.

Organizational Capability: The capability of an organization means its intrinsic capability or potential to develop its strength and to rise above its weaknesses so as to exploit its opportunities. And face the treats in its external environment. In the absence of capability, even exceptional and valuable resources may be worthless. According to several thinkers in strategic management, capabilities are the outcomes of an organization knowledge base or the skills and knowledge of its employees. Organizational capabilities are important for strategy making due to two reasons: First, it indicates an organization capacity to meet environmental challenges. Second, it reveals to potential that should be developed in the organization to achieve success.

Strategic and competitive Advantage: Strategic advantages are the shareholders value and market share and are the outcomes of organizational capabilities. On the other hand, strategic disadvantages are the shortcomings due to lack of organizational capabilities. Both can be measured in absolute terms. For example, higher the probability, greater is the strategic advantage. Comparative advantage is a special type of strategic advantage. It is a relative term and is compared with respect to rivals in the industry. For example, a company has a comparative advantage when its profitability is higher than that of its rivals. Thus strategic advantage is a broader concept and competitive advantage is one of its parts.



CHECK YOUR PROGRESS

Q1: Define Organisational Analysis

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Q2: What is Organisational Resources?

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Q3: What is organizational capability?

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6.6 FACTORS IN ORGAISNATIONAL ANALYSIS

Organizational analysis involves the identification of factors which indicate organizational capabilities. These factors are known as organizational capability factors or competitive advantage factors or strategic factors. The following are the organizational capability factors that exist within an organization which are critical for the formulation and implementation of the strategy.The following are some of the factors in organisational analysis:

a. **Capability Factors in Finance**: Financial capability factors are concerned with the availability, usage and management of funds. Some of the important factors which influence an organization's financial capability are as under:

i. Sources of funds - related factors-financing pattern (capital structure), cost of funds, financial leverage, reserves and surplus, relationship with provider of funds, etc.

ii. Usage of funds - related factors - fixed assets, current assets, loans and advances, dividend distribution.

iii. Management of funds - related factors-accounting and budgeting systems, financial control system, tax planning return risk and management, etc.

b. Capability Factors in Marketing: The main factors that influence the marketing capability of an organization are as follows:

i. Product related factors-product mix, branding product positioning, differentiation, packaging, etc.

ii. Price related factors-pricing policies, price competitiveness, value for money pricing, price changes etc.

iii. Place related factors-distribution network, transportation and logistics, relations with intermediaries, etc

iv. Promotion related factors-promotion mix, promotion tools, customers relationship management etc.

v. Integration and control related factors-market standing, company image, marketing information system, marketing organization, etc.



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Marketing strengths and weaknesses of some companies are given below:

- Hindustan Unilever is known for its marketing capability. It has a countrywide distribution network with a large number of clearing and forwarding (C&F) agents , wholesalers and retailers. It has prominent brands in its kitty, most of them provided by its parent company.
- Parle enjoys a strong image and appeal among Indian consumers. Several of its biscuits and confectionery brands are market leaders in their category. The company enjoys a high market share with its biscuits brands such as Parle-G, Monaco and krackjack and confectionery brands such as Kismi, mangobite, Malady and Poppins.
- Philips India adopted premium pricing strategy for its colour televisions on the premise of popularity of its brands in electrical and electronic segments, But customers could not relate quality of Philips

TV sets with higher price due to several quality-price-performance offerings from its competitors like L.G. , Samsung, Sony. Etc.

- Several studies reveal that ineffective marketing is prone of the major causes of industrial sickness in the small scale sector.

c. Capability factors in Operation: Operations capability factors relate to the production of products and services. Major factor influencing an organization operation capability are as under :

i. Production system : Factors related production system are plant location, capacity and its utilization , plant layout, product design, material supply system, degree of automation , extent of vertical integration etc.

ii. Operations and control system: factors related to operation and control system are production planning, inventory management, cost and quality control, maintenance system and procedures, etc.

iii. Research and Development : Factors related research and development are product development , R & D staff, technical collaboration and support, patent right, level of technology used etc.



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Strength and Weaknesses in the area of operations of some companies are given below :

- Reliance Industries got access to global technology for its pertochemicla plant through technical collaboration with Dupont (USA), ICI (UK), Navocor (Cananda), and Crest (Netherland).Its high level of vertical integration serves as an entry barrier to new entrants in petrochemicals.

- ICICI Bank has used information technology to offer value to its customers. In its operating process, more than 20 per cent transactions take place on the Internet , about 65 percent through ATM and less than 15 percent in branches . As a result ICICI Bank is narrowing the gap between itself and the largest bank, State Bank Of India, though the latter has much more number of branches than ICICI Bank.

d. Capability factors in Human Resources: In any organization human resources make use of non-human resources. Human resource capabilities relate to the acquisition and use of human resources, skills and all connected aspects that pressure strategy formulation and implementation. Some of the important factors which determine human resource capability are given below.

i. Factors related to the human resource system - Human resource planning recruitment and selection, training and development, human resource mobility, appraisal and compensation management, etc.

ii. Factors related to employee retention - Company's image as an employer, career development opportunities for employees, working conditions, employee benefits, employee motivation and morale, etc.

iii. Factors related to industrial relations - Union management relationship, collective bargaining, grievance handling system, employee participation in management, etc.

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Some examples of human resources capability and their impact are as under:

- Infosys Technologies is considered a good employer and employees are its greatest strength. It recruits people with good academic record; attitudes for teamwork and high learn ability. The company spends about 3 percent of its resources on training and development and has a very attractive employee stock option scheme.
- Steel Authority of India Limited (SAIL) recruited 1.7 lakh employees, much more than what it actually required due to faulty human resource planning. This resulted in heavy losses to SAIL due to huge wage/salary bill. Moreover, availability of ample idle time created complacency among employees. On the advice of its consultants (Mc Kinsey & Co), SAIL pruned its workforce to one lakh employees and paid heavy compensation under the Voluntary Retirement Scheme (VRS).

e. Capability Factors in Information Management: Information is valuable resource and can provide a competitive advantage to the organization. Information system is concerned with collection, processing, storage and dissemination of Information relevant for decision- making. Some of the factors that influence information management capability are as follows:

i. Factors related to acquisition and retention of information - sources, quality, quality, timeliness and cost of information, capacity to retain and protect information.

ii. Factors related to processing and synthesis of information - computer systems, software capability, database management, synthesizing capability.

iii. Factors related to retrieval and usage of information - availability of right information in the right format, a capacity to assimilate and use information.

iv. Factors related to transmission and dissemination of information - speed of transmission, willingness to accept information etc.

v. Factors related to integration and support – availability of appropriate IT infrastructure, investment in state-of-the-art system, competence of computer professionals, top management, support, etc.



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Some examples of companies with information system capability are given below:

- Infosys Technologies has linked its various software development centers, located at different places in India and abroad, through computerized networks, It has similar networking with its clients too. As a result, its staff can share relevant information among themselves as well as with the clients.
- All branches of ICICI Bank spread throughout the country are interlinked through computerized networks. This creates value for a customer as he can operate his account from any place even if he does not have an account in the branch located at that place.

f. Capability Factors In General Management: General Management involves integration and direction of the functional capabilities. Some of the major factors that influence general management capability are as under:

i. Strategic management system related factors - Processes relating to developing strategic intent,-strategy formulation and implementation, strategy evaluation, rewards and incentives for top managers, etc.

ii. Top management related factors - Values, norms, personal goals, competence, experience, orientation and risk propensity of general managers.

iii. External relationships related factors - Public image as corporate citizen, sense of social responsibility, rapport of government and regulatory agencies, public relations, etc.

iv. Organizational climate related factors - Organizational culture, powers and politics management of change, balance of vested interests, etc.



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Some examples of companies with or without general management capability are given below:

- Hindustan Unilever limited had exceptional capability in general management. It is considered a leadership laboratory. As a result, it has produced a large number of chief executives both for itself and its parent company, Unilever.
- Amul is a household name in India. Gujarat Cooperative Milk Marketing Federation (GCMMF), the producer of Amul brand milk and milk products, is a success story in the cooperative sector. It is legendary founder, Verghese Kurien, is called the father of White Revolution in India. His vision and the top management team of GCMMF have made it.



CHECK YOUR PROGRESS

Q4: Write any two factors that influence the marketing capability of an organization.

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Q5: Write any two factors that influence the marketing capability of an organization.

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6.6 METHODS AND TECHNIQUES IN ORGAINATION ANALYSIS

Methods and Techniques used in Organization Analysis and appraisal may be classified as follows:

A. INTERNAL ANALYSIS: The internal analysis of an organization involves investigation into its strengths and weaknesses by focusing on factors which are relevant to it :

1. **VRIO Framework:** The VRIO stands for Valuable, Rare, Inimitable and Organized for usage. The terms are explained as follows :
    a. **Valuable**: These are the capabilities that enable the organization to generate revenues by capitalizing on opportunities and / or to reduce costs by neutralizing threats. The ability to provide high quality after sale services to customers and the ability to develop rapport with the government.
    b. **Rare:** These are the capabilities that one or a few firms in the industry exclusively possess. A unique location and a highly motivated workforce are example rare capabilities.
    c. **Inimitable:** these are the capabilities which competitors either cannot duplicate or can duplicate only at a very high

cost. Excellent corporate image and the ability to acquire new business are example of inimitable capabilities.

d. **Organized for usage:** These are the capabilities which an organization can use through its appropriate structure business processes, control and reward system. The availability of competent R & D personnel and research laboratory to continually strong out innovative products is an example of organized for usage capability.

2. **Value Chain Analysis**: Every organization performs several activities. These activities are interrelated and form a chain. Each activity in the chain creates some value and involves cost. Thus, a value chain analysis is a set of interlinked and value – creating activities performed by an organization.

a. **Primary Activities:** These activities are directly related to the creation of product or service. Primary activities consist of the following.

i. Inbound logistics: All the activities used for receiving, storing and transporting inputs into the production process are known as inbound logistics.

ii. Operations: All activities involved in the transformation of inputs into outputs are called operations.

iii. Outbound logistics: All the activities used for receiving, storing and transporting finished products are known as outbound logistics.

iv. Marketing and sales: These consist of activities used to market and sell products services to customers.

v. Service: These are the activities used for enhancing and maintaining a product's value.

b. **Support Activitie**s: These activities provide support to the primary activities. Support activities consist of:

i. Firm infrastructure: All activities for general management of the organization to achieve its objective are called firm infrastructure.

ii. Human resource management: These comprise recruitment, selection, and training, deploying and retaining the human resources of an organization.

iii. Technology development: Typical activities in this category are research and development, product and process design, equipment design etc.

iv. Procurement: Obtaining raw materials, parts, supplies, machinery, equipment and other purchased items are included in procurement.

3. **Quantitative analysis:** In quantitative analysis both financial and non financial aspects are covered.

i. Financial Analysis: In order to judge strength and weaknesses in different functional areas, ratio analysis and economic value added analysis are used.

ii. Non-Financial Analysis: There are several aspects of an organization which cannot be measured in financial terms. Non-financial analysis is used to assess these aspects .Employee absenteeism and turnover, advertising recall rate, production cycle time, service call rates, number of patents registered per annum, inventory turnover rate, etc. are such aspects.

4. **Qualitative Analysis:** Those aspects of an organization which cannot be expressed in quantitative terms are assessed through qualitative analysis. Corporate image, corporate culture, learning ability, employment morale, etc. are examples of these aspects. Qualitative analysis can be used to support and strengthen quantitative analysis.

B. COMPARATIVE ANALYSIS: Strengths and weaknesses provide a competitive advantage to the organization when these are unique

and exclusive. Therefore, an organization should compare its capabilities with those of its competitors. Comparative analysis can be over a time period, on the basis of industry norms and through bench marking.

Historical Analysis: In historical analysis an organizations strengths and weaknesses are compared over different time periods. Its reveals whether the strengths are improving or declining. Areas which show continuous improvement are durable strengths. Hofer and Schendel have developed a functional-area profile and resource deployment matrix for historical analysis.

Industry Norms: Every industry has certain norms or standards for key parameters of performance. The performance levels of a firm can be compared with the norms of the industry in which the firm operated. For example, cost levels of Maruti Suzuki may be compared against cost standards in the car industry. A more selective approach can be to compare with firms that follow similar strategies. These firms are known as strategic group .According to Miller and Dess, a strategic group is “a cluster of competitors that share similar strategies and, therefore , compete more directly with one another than with other firms in the same industry.”

Benchmarking: A benchmark means a reference point for the purpose of measurement and comparison.” Benchmarking is the process of identifying, understanding and adapting outstanding practices from within the same industry or from other businesses to help improve performance.” The basic purpose of benchmarking is to match and even surpass the best performer. The key question is benchmarking are: What to benchmark and whom to benchmark. These questions can be answered by knowing the types of bench marking . On the basis of what to benchmark, benchmarking is to following types:

i. Performance benchmarking
ii. Process benchmarking
iii. Strategic benchmarking

iv. Competitive benchmarking

v. Functional benchmarking

vi. Generic benchmarking

C. COMPREHENSIVE ANALYSIS: Each of the techniques has its own benefits but fails to offer a comprehensive representation of organizational strengths and weaknesses. Comprehensive analysis is required to defeat this limitation. The techniques used in comprehensive analysis are given below:

Key factor rating: In this technique the key factors as discussed under are analyzed to judge their positive and negative impact on the functioning of the organization.

Balanced Scorecard: Balanced scorecard is the most comprehensive method of analyzing an organization's strengths and weaknesses. It integrates different perspectives with vision and strategy to present a comprehensive and balanced picture of organizational performance.

The four key performance actions identified in balanced scorecard are as under

i. Financial perspective'

ii. Customer perspective

iii. Internal Business Processes Perspective

iv. Learning and innovative perspectives

Business Intelligence Systems: Data from a range of internal and external sources are used to estimate the company strategic directions and operational performance. Data mining, data warehouse and analytical reports are used.

D. SWOT ANALYSIS: The SWOT stands for the following:

1. **Strength(S)**: Strength is a competency which facilitates an organization to gain an advantage over its competitors.
2. **Weakness (W):** A weaknesses is a limitation or constraint which creates a competitive drawback for the organization.

3. **Opportunity (O):** An opportunity is an encouraging condition in the environment.
4. **Threat (T):** A threat is an adverse condition in the environment.

Strength and weaknesses can be identified through organizational appraisal or analysis of the internal environment. Environmental appraisal or analysis of the external environment reveals opportunities and threats.

SWOT analysis is also known as WOTS and TOWS analysis. It helps in understanding the internal and external environment. It is very useful in strategy as the organizations strengths and weaknesses can be matched with the opportunities and threats. An effective strategy makes use of strengths to capitalize on the opportunities and minimize the impact of weaknesses to neutralize the threats. After SWOT analysis, an organization had to decide how to maximize its strengths and minimize its weaknesses. It can also decide how to exploit the opportunities and to cover the threats.

Main advantages of SWOT analysis are as follows:

i. It is simple to use
ii. It is inexpensive
iii. It provides a comprehensive picture of environment
iv. It is flexible and can be adapted to different types of organizations

It serves as the basis for strategic analysis.



CHECK YOUR PROGRESS

Q6: Define Benchmarking.

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Q7: What is SWOT analysis.

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6.7 LET US SUM UP

In this unit we discussed the following :

- Organizational Analysis is the analysis of internal environment which refers to all factors within an organization that influence its capabilities to accomplish its strategic intent. The main purpose is to determine the capabilities of its strength and weakness of an organization.
- The strategic advantage of an organization is developed through its resources, behavior strengths, weakness, synergistic effects, competencies and capability.
  a. Organizational Resources
  b. Organisatonal Behaviour
  c. Strength and Weaknesses
  d. Synergistic Effects
  e. Competencies
  f. Organizational Capability
  g. Strategic and competitive Advantage
- The organizational capability factors that exists within an organization which are: Capability Factors in Finance, Capability Factors in Marketing, Capability factors in Operation, Capability factors in Human Resources, Capability Factors in Information Management
- Methods and Techniques used in Organization Analysis and appraisal may be classified as : internal analysis, comparative analysis, comprehensive analysis and SWOT analysis



6.8 FURTHER READING

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3. Tandon A (2010); Business Policy and Strategic Management; Anmol Publications Pvt.Ltd.
4. Rao Subba P();Business Policy and Strategic Management: Text and Cases; Himalaya Publication House , New Delhi



6.9 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q1: Organizational Analysis is the process of evaluating systematically organizational capabilities which can give it competitive advantage in the market .

Ans to Q2: Organization resources contain all physical, human and financial resources. Plant and machinery, raw materials, geographical location and technology are the examples of physical resources. Human resources include intelligence, experience, training, judgment, relationship of members of an organization.

Ans top Q3: The capability of an organization means its intrinsic capability or potential to develop its strength and to rise above its weaknesses so as to exploit its opportunities.

Ans to Q4: The factors that influence the marketing capability of an organization are:

a. Product related factors-product mix, branding product positioning, differentiation, packaging, etc.

b. Price related factors-pricing policies, price competitiveness, value for money pricing, price changes etc.

Ans to Q5: The important factors which determine human resource capability are:

a. Factors related to the human resource system - Human resource planning recruitment and selection, training and development, human resource mobility etc

b. Factors related to employee retention - Company's image as an employer, career development opportunities for employees, working conditions, employee benefits, employee motivation and morale, etc.

Ans to Q6: Benchmarking is the process of identifying, understanding and adapting outstanding practices from within the same industry or from other businesses to help improve performance.

Ans to Q7: The SWOT stands for the following:

1. Strength(S): Strength is a competency which facilitates an organization to gain an advantage over its competitors.
2. Weakness (W): A weaknesses is a limitation or constraint which creates a competitive drawback for the organization.
3. Opportunity (O): An opportunity is an encouraging condition in the environment.
4. Threat (T): A threat is an adverse condition in the environment.



6.10 MODEL QUESTIONS

Q1: Define Organisational Analysis.

Q2: What are the characteristics of Organisational Analysis.

Q3: Outline the factors for Strategic advantage of an organization.

Q4: Describe the organisational capacity factors that exists within an organization.

Q5: Explain the methods and techniques in organisational Analysis.

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