

INTERNAL ENVIRONMENT ANALYSIS TECHNIQUES (1)

Caescu Stefan Claudiu

The Academy of Economic Studies Bucharest, The Marketing Faculty

Popescu Andrei

The Academy of Economic Studies Bucharest, The Marketing Faculty

Ploesteanu Mara Gabriela

The Academy of Economic Studies Bucharest, The Marketing Faculty

The situation analysis, as a separate component of the strategic planning, involves collecting and analysing relevant types of information on the components of the marketing environment and their evolution on the one hand and also on the organization's resources and capabilities on the other. The main purpose of the study of the analysis techniques of the internal environment is to provide insight on those aspects that are of strategic importance to the organization. The marketing environment consists of two distinct components, the internal environment that is made from specific variables within the organization and the external environment that is made from variables external to the organization. Although analysing the external environment is essential for corporate success, it is not enough unless it is backed by a detailed analysis of the internal environment of the organization. The internal environment includes all elements that are endogenous to the organization, which are influenced to a great extent and totally controlled by it. The study of the internal environment must answer all resource related questions, solve all resource management issues and represents the first step in drawing up the marketing strategy. The present paper accomplished a documentary study of the main techniques used for the analysis of the internal environment. The special literature emphasizes that the differences in performance from one organization to another is primarily dependant not on the differences between the fields of activity, but especially on the differences between the resources and capabilities and the ways these are capitalized on. The main methods of analysing the internal environment addressed in this paper are: the analysis of the organizational resources, the performance analysis, the value chain analysis and the functional analysis. Basically such an analysis of the internal environment allows the organization to identify its resources and capabilities as best as possible, in relation to the threats and opportunities brought about by the crisis situations. The research allows the identification of the organizational behaviour of resource and capabilities capitalization that must be adopted during the economic crisis. The study may be useful to both the academic and the business environment.

Keywords: marketing environment, internal environment, resource analysis, performance analysis, value chain analysis.

JEL classification: M31

I. Foreword

Any organization represents a component of the marketing environment where it is active. Starting from this statement, the implementation of the market strategy is regarded as a development of long term actions plans, aimed to ensure an efficient management of opportunities and threats within the marketing environment while considering the strengths and weaknesses of the organization in itself. The situation analysis, as a distinct component of the strategic groundwork (Figure 1), involves collecting and analysing the types of relevant

information on the marketing environment components and their evolution on the one hand, but also on the company's resources and capabilities on the other.

The marketing environment of the organization consists of two distinct levels, the internal environment that is made from specific variables within the organization and the external environment that is made from variables external to the organization. The external environment is divided further into two distinct categories (sub-environments of marketing): macro-environment and micro-environment. The potential result of the external environment analysis is identifying the organization's opportunities and threats, both present and future. On the other hand, the potential result of the internal environment analysis is identifying the strengths and weaknesses that are present in the organizational structure and culture.

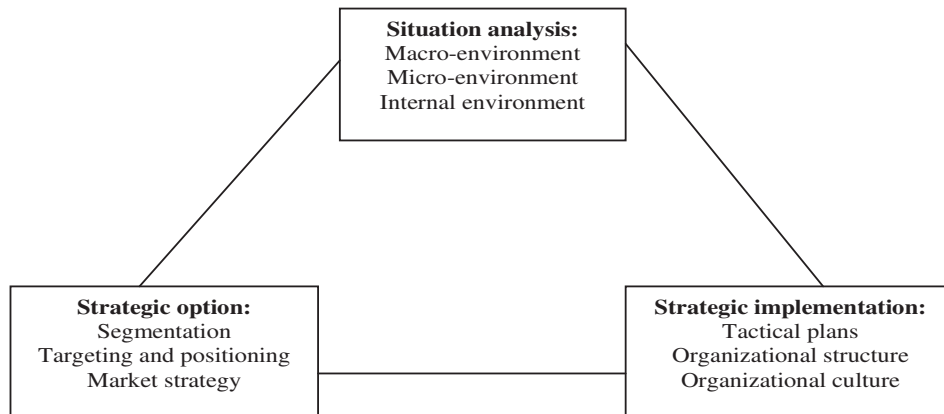


Figure 1. The strategic marketing management process

Source: Adapted from Pop, Nicolae, Alexandru, coord. *Marketing Strategic*, Bucharest: Editura Economică PH, 2000: p.45

II. Literature Review

The internal environment includes all elements that are endogenous to the organization, which are influenced to a great extent and totally controlled by it. The study of the internal environment must answer all resource related questions, solve all resource management issues and represents the first step in drawing up the marketing strategy. All these components are making up a “*value chain*”; the value chain analysis is based on the connection between the company's resources and its competitive position and it explores how these components contribute to the profitability (Porter 1985:121).

The external business environment comprises are set of factors that make up a complex, heterogeneous structure, consisting of a network of exogenous variables matched by the own resources of the company – endogenous variables. The marketing environment consists of two main components: the micro-environment and the macro-environment (Balaure 2003:75).

The micro-environment of the organization is comprised from those components that are in direct relationship with the company, of mutual inter-dependency, permanent and high intensity, issued from the need of achieving present or future objectives. These components are: merchandise suppliers, services providers, labour force providers, competitors, public organizations (Dumitru 2004:26).

The macro-environment includes all the factors that are influencing indirectly, on the long term and with weak intensity, generating business opportunities for the company or, alternatively, threatening and forcing the organization to adapt, with no possibility of a direct influence of these factors. The macro-environment components are: the demographic environment, the economic environment, the technologic environment, the cultural environment, the politics environment,

the legal and institutional environment, and the natural-geographic environment (Balaure 2003:78).

III. Methodology

The present paper accomplished a documentary study of the main techniques used for the analysis of the internal environment. Although analysing the external environment is essential for corporate success, it is not enough unless it is backed by a detailed analysis of the internal environment of the organization. The study of the internal environment must answer all resource related questions, solve all resource management issues and represents the first step in drawing up the marketing strategy. The special literature emphasizes that the differences in performance from one organization to another is primarily dependant not on the differences between the fields of activity, but especially on the differences between the resources and capabilities and the ways these are capitalized on.

IV. Internal environment analysis techniques

The analysis of the organizational resources is the most used instrument for the internal environment analysis. The following figure (Figure 2) presents the role that the resources of the organization hold as a starting point in the drawing up of the organizational marketing strategy. Also, one can note the way in which the organizational resources and capabilities may constitute the basis for developing the competitive advantage.

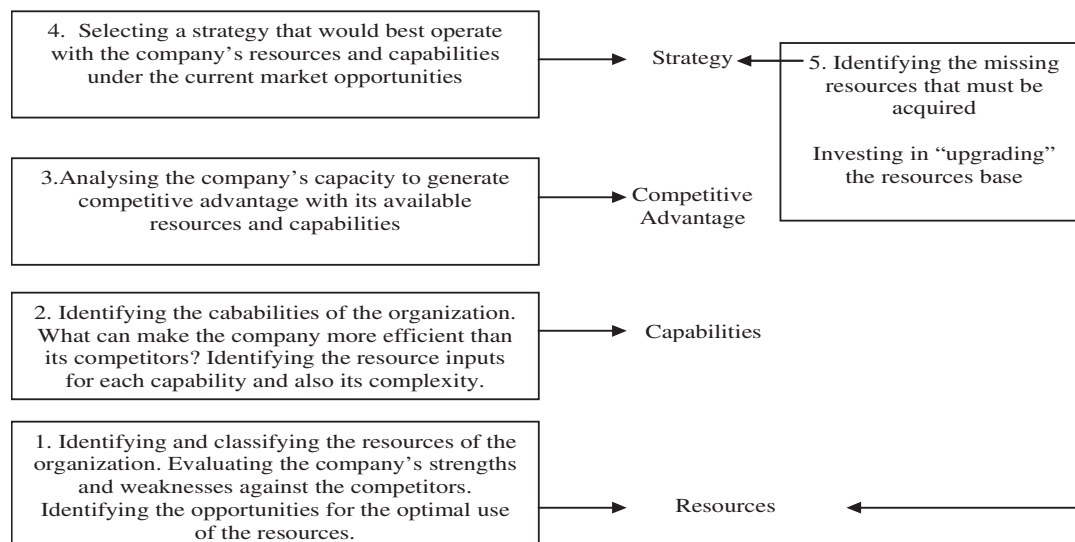


Figure 2. The use of the organizational resource analysis as an instrument for the internal environment analysis

Source: Adapted from Grant Robert Michael. *The resource based theory of competitive advantage: implications for strategy formulation*. California Management Review 3(1991):45-71;

The stages of this method are the following: defining the company resources that generate the organizational strengths and weaknesses; identifying the optimum method to combine the resources and generated capabilities; identifying the extent to which the combined resources and capabilities are generating sustainable competitive advantages; selecting strategies to best exploit the resources and capabilities of the organization in relation to the market opportunities; analysing the main characteristics of the resources and capabilities in terms of sustainability, transferability and repeatability as basic elements in sustaining competitive advantage and identifying the resource gaps. The research conducted on the method of analysing resources as a

method of internal environment analysis has proven that the development of sustainable competitive advantage depends directly on the company's resources and capabilities. The analysis of resources is the basis for identifying those resources capable to sustain competitive market strategies. Through their nature, the strategies based on the organization resources are requiring a better understanding of the strategic capabilities of the organization. The marketing professionals may chose to combine the analysis of resources with one of the following methods.

Performance analysis. PIMS Programme (Profit Impact of Market Strategy) is the most known method of performance analysis and was developed by the American Institute of Strategic Planning to emphasize the influence of the internal strategic factors on the activity of the organization. The main aim of the PIMS method is to empirically develop principles to determine which strategic variables and under which circumstances are producing one result or another, identified as the sales volume or investment profitability. The conclusion following the research was that nine strategic variables are influencing 80% out of the variations in the organizational profit. It must be also considered that there are many other ways to evaluate the organizational performance. Indeed, although most of them suppose financial assessment, there is also a series of non-financial indexes that may offer a long term image on the "health" of the business. Part of these indexes may be the market position, the value of products, managerial development or work productivity. We must also bear in mind that the strategic objectives of the organization may change over time and the financial indicators measuring the business performance must also be modified. For example, when a new product is launched, the key index may be the sales growth rate, while when the product is at its maturity, one may use the return on initial investment or the profitability rate. Considering the importance of both the financial and non-financial indicators Kaplan and Norton (Kaplan and Norton 1992:71-79) have developed the balanced scorecard as a method of evaluating and measuring the company performance. This approach suggests four perspectives to integrate the financial and non-financial performance indicators of the organization: *internal perspective, financial perspective, learning and growth perspective and the customer perspective*. Identifying the strategic factors with the greatest impact (positive or negative) is also important to be performed by the strategic managers seeking to increase the company's performance. Otherwise put, the managers should identify those variables that have significant effect on the company's strengths and weaknesses. A variable may be considered as a strength if it generates competitive advantage, if it brings extra value to the consumer and if the organization is able to capitalize it at a superior level than the competitors on the market. On the other hand, a variable is a weakness for the organization if it is also of value to the consumer but if the company is unable to generate it, or produces it at an inferior level than the competition.

Value chain analysis. This model (Figure 3) was formulated by Porter as a method of examining the nature and development of existing synergies between the internal activities of an organization.

SUPPORT ACTIVITIES	ORGANIZATION INFRASTRUCTURE					PROFIT MARGIN
	HUMAN RESOURCE MANAGEMENT					
	TECHNOLOGICAL DEVELOPMENT					
	PROCUREMENT					
	INBOUND LOGISTICS	OPERATIONS	OUTBOUND LOGISTICS	MARKETING& SALES	SERVICE	

Figure 3. The value chain model

Source: Adapted from Porter Michael. *How competitive forces shape strategy*, Harvard Business Review, 2(1979):137-145;

According to Porter, any company is a succession of activities undertaken to develop, produce, promote and deliver its products. These activities may be grouped and represented into five primary activities and four support activities using the value chain concept. The basic principle of the value chain is that it represents a systematic method of examining all activities taking place within the company and the method in which these interact to differentiate the organization's value chain from those of its key competitors. This differentiation is recognised as a key source for competitive advantage. One of the key advantages of this model is recognising the fact that an organization is more than a random collection of production machines, financial and human resources, as all of these resources are not valuable unless they are emphasized by activities and organization within a system that ensures that the products and services delivered are offering value-added to the customer/consumer.

We must also consider that the offer of most of the organizations is made up from many types of products and services, meaning *several value chains*. Thus, an analysis of the internal environment supposed analysing these value chains. The internal analysis of an organization may be conducted through the following steps: examining the value chain of each product line, considering the activities involved in manufacturing those products; examining the connection between the value chains of each line of products; examining the potential synergies between the value chains of different product lines. In addition to the above presented issues, one must also consider that a great extent of the value added created through the organization's goods and services also depends on the supply chain. For example, the quality of a car is not only influenced by the activities inside the organization but also by the spare parts, components or dealership performance.

One of the simplest methods of analysing the internal environment is the *functional analysis*. The abilities and resources of an organization may be classified under a capability profile starting from the basic business functions of the company: marketing, finance, research and development, production, etc. (Table 1).

Table 1.-The profile of the organization's strategic capabilities

Internal area	Resource/competence	Evaluation
<i>The profile of the strategic capabilities based on resource analysis</i>		
Material resource	New production facilities that incorporate the latest technology	High intensity strength (+4)
Human resource	Highly specialized staff	Low intensity strength (+2)
Financial resource	High liquidity	Low intensity weakness (-2)
<i>The profile of the strategic capabilities based on value chain analysis</i>		
Intangible assets	Solid corporate image on the market Known brands	High intensity strength (+4)
Inbound logistics	Excessive use of a low number of suppliers	High intensity weakness (-4)
Outbound logistics	Inefficient management of external warehouses	Medium intensity weakness (-3)
Human resource management	High absenteeism	High intensity weakness (-4)

Source: Adapted from West, Douglas, Ford, John and Ibrahim, Essam. *Strategic Marketing, Creating Competitive Advantage*, Oxford: Oxford University Press, 2006, p. 87

The resources of an organization do not include only financial and natural resources, but also human factor abilities to implement the necessary objectives, strategies and policies for each area of activity. When used properly, these functional resources are strengths base on which future strategies may be developed. The organizational culture and structure must also be regarded as key elements of the internal environment of the organization, in addition to being functional resources.

V. Conclusions

Regardless of the analysis method used and of the variable researched, the analysis of the internal environment of the organization may be accomplished through the development of a “strategic capabilities profile” that must identify, measure, and weigh the strengths and weaknesses of the organization. Basically such an analysis of the internal environment allows the organization to identify its resources and capabilities as best as possible, in relation to the threats and opportunities brought about by the crisis situations.

VI. Note

1. This paper was co-financed from the European Social Fund through Sectorial Operational Programme of Human Resources Development 2007-2013, project number POSDRU/1.5/S/59184 "Performance and excellence in postdoctoral research in Romanian economics science field".

VII. References:

Books:

1. Balaure, Virgil coord. *Marketing*, Second Edition, Bucharest: Uranus PH, 2003;
2. Cravens, David. *Strategic Marketing*, New York: Richard D. Irwin PH, 1994;
3. Dumitru, Ionel. *Marketing strategic. O abordare în perspectiva globalizării (Strategic Marketing. A globalisation approach)*, Bucharest: Uranus PH, 2003;
4. Hutt, D. M., Spech, W. T. *Business Marketing Management – A Strategic View of Industrial and Organizational Markets*, New York: Thomson South – Western PH, 2004;
5. Kotler, Phillip. *Principles of Marketing*, 11th edition, New York: Prentice-Hall PH, 2007;
6. Pop, Nicolae, Alexandru. coord. *Marketing Strategic (Strategic Marketing)*, Bucharest: Editura Economică PH, 2000;
7. Porter, Michael. *Competitive advantage creating and sustaining superior performance*, New York: Simon & Schuster Adult Publishing Group, 1985;
8. West, Douglas, Ford, John and Ibrahim, Essam. *Strategic Marketing, Creating Competitive Advantage*, Oxford: Oxford University Press, 2006

Articles:

1. Grant Robert Michael. The resource based theory of competitive advantage: implications for strategy formulation., *California Management Review* 3(1991):45-71;
2. Kaplan R.S., Norton D.P. The balanced scorecard: measure that drive performance, *Harvard Business Review*, 1(1992):71-79;
3. Porter Michael. How competitive forces shape strategy, *Harvard Business Review*, 2(1979):137-145;