

Strategic analysis and strategic management



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1. 0 Introduction

The purpose of this paper is to establish what strategic analysis is, why we use it and when used correctly, how it can benefit your organisation. I will discuss the VRIO and PESTLE frameworks. To attain an accurate portrait I will gather sufficient information from reliable sources and interpret this data to help answer the questions raised in an intellectually integrative manner.

2. 0 Objectives

The main objectives of this project are to:

Explain why strategic analysis is necessary in organisations

Identify and explain what strategic analysis methodologies and tools are used to examine internal and external environments.

Explain why strategic analysis is necessary in organisations.

Breakdown and analyse the VRIO and PESTEL analysis tools.

3. 0 What is Strategic Analysis?

Professor Worrall from the University of Wolverhampton Business School describes strategic analysis as a 'theoretically informed understanding of the environment in which an organisation is operating' (Worrell, L. 1998).

Understanding the organisation's interaction with its internal and external environment will significantly improve an organisations effectiveness and efficiency by growth of the organisation's ability to position and redistribute its resources logically.

Strategic analysis is a critical component of the strategic planning process. Strategic analysis is an integral part of a company's evaluation and control program as it provides managers with a comprehensive assessment of the organization's capabilities and market factors; revealing growth opportunities and vulnerabilities (Beany, 2003).

Definitions of strategic analysis often differ, but Worrall states that the following attributes are commonly associated with strategic analysis:

The Identification and assessment of information relevant to strategy design.

Classification of the internal and external environment to be considered.

The range of problem solving methods that can be employed in the analysis.

(Worrell, L. 1998).

3. 1 Internal Analysis

The internal environment is the shape and fitness of the organisation.

Internal analysis tries to identify potential inhibitors that diminish organisational effectiveness such as resources. An inhibitor is a mismatch between the structure or activities of the organisation and its direction.

An example might be my smartphone. As a resource it is more powerful than the original computer system on the space shuttle, however, I currently could not land the space shuttle with it. So in this case I have a superior resource but an inferior capability.

3. 2 External Analysis

All organisations operate in a changing world and are subject to forces both internally and externally which are more powerful than they are. No business can survive without continued interaction with the external environment; organisations are influenced by forces in their external business environment.

Any business strategy needs to take account of all these forces so that opportunities and threats can be identified and the organisation can navigate its way to success by matching its internal strengths to external opportunities.

4. 0 Strategic Analysis Tools

There are many strategic analysis and planning tools available to aid in strategically analysing the business environment internally and externally including the market environment as shown in Fig. 1.

(Fig. 1)

The following are just some of the tools available to analyse the business.

PESTLE framework

SWOT framework

Scenario planning framework

VRIO framework

Critical success factor framework

Porter's five forces framework

Four corner's framework

Value chain analysis

War gaming analysis

Each tool has its benefits and restrictions and for the scope of this project I will examine PESTEL and VRIO frameworks in more depth.

5.0 VRIO framework

Barney and Hesterly (2006), describes the VRIO framework as a worthy tool to examine the internal environment of an organisation. VRIO is an acronym that stands for the four questions that must be asked about a resource or capability to determine its competitive potential.

The Question of Value

Does a resource enable an organisation to exploit an environmental opportunity, and/or neutralize an environmental threat?

The Question of Rarity

Is a resource currently controlled by only a small number of competing organisation?

The Question of Imitability

Do firms without a resource face a cost disadvantage in obtaining or developing it?

The Question of Organization

Are an organisation's policies and procedures organized to support the exploitation of its valuable, rare, and costly-to-imitate resources?

We can evaluate what types of resources lead to competitive advantage by establishing the:

Tangible resources (Fig. 2)

Intangible resources (Fig. 3)

Organisational capabilities (Fig. 4)

The table in Fig. 5 represents how to apply the VRIO framework and what outcomes to expect when analysing an organisation using the VRIO framework.

5.1 Tangible assets

Tangible assets are those that have a physical substance and can be touched, such as currencies, buildings, real estate, vehicles, inventories, equipment, and precious metals (Barney and Hesterly, 2006).

Tangible Resources

Financial

Organisation cash and cash equivalents

Organisation capacity to raise equity

Organisation borrowing capacity

Physical

Modern plant and facilities

Favourable manufacturing locations

State-of-the-art machinery and equipment

Technological

Trade secrets

Innovative production processes

Patents, copyrights, trademarks

Organizational

Effective strategic planning process

Excellent evaluation and control systems

(Fig. 2)

5. 2 Intangible assets

Intangible assets are assets that are not physical in nature. Intellectual property such as patents, trademarks, copyrights, business methodologies, goodwill and brand recognition are all common intangible assets.

Intangible Resources

Human

Experience and capabilities of employees

<https://assignbuster.com/strategic-analysis-and-strategic-management/>

Trust

Managerial skills

Organisation -specific practices and procedures

Innovation and Creativity

Technical and scientific skills

Innovation capacities

Reputation

Brand name

Reputation with customers for quality and reliability

Reputation with suppliers for fairness, non-zero-sum relationships

(Fig. 3)

5. 2 Organisational capabilities

Organisational capabilities are a source of competitive advantage. (McKinzie, 2010)

Organisational Capabilities

Organisation competences or skills the firm employs to transfer inputs to outputs

Capacity to combine tangible and intangible resources, using organisational processes to attain desired end.

Outstanding customer service

Excellent product development capabilities

Innovativeness of products and services

Ability to hire, motivate, and retain human capital

(Fig. 4)

5.3 VRIO summary

The table in Fig. 5 is an example VRIO framework summary, the output provides insight on expected performance, competitive advantage and economic implications.

6.0 PESTLE framework

PESTLE is an external analysis tool generally used in a holistic business environmental context, the PEST analysis is an analysis of the external macro environment in which a business operates. These are often factors which are beyond the control or influence of a business, however are important to be aware of when doing product development, business or strategy planning (CIMA, 2007).

A PESTLE analysis is often used as a generic 'orientation' tool (CPID, 2010), establishing where an organisation or product is in the context of what is happening externally, these external influences will eventually affect what is happening internally.

Political factors – include governmental guidelines and restriction such as employment laws, tax policy and environmental constrictions. Other political factors are political stability and trade restrictions.

Economic factors – alter the cost of capital and procurement power of an organisation. Economic factors include interest rates, economic growth, currency exchange rates and inflation.

Social factors – impact on the consumer's need and the market size for an organisation's resources. Social factors include age demographics, population growth and attitudes towards healthiness.

Technological factors – influence barriers to entry, investment in innovation and make or buy decisions, such as investment incentives and the degree of technological transformation.

Legal factors – What is happening with changes to laws. This may influence employment, access to resources, quotas, resources, imports and exports.

Environmental – with relevance to environmental and ecological issues.

The six elements form a framework for reviewing a situation, and can also be used to review a strategy or position, direction of a company, a marketing proposition, or idea.

7.0 Conclusion

In the ever-competitive marketplace, companies are increasingly finding that their competitive advantages are elusive and that it is an on-going struggle to “ stay within the pack,” let alone “ ahead of the pack.”

It is not simply enough to identify the political, environmental, sociological, technological, economic and legal aspects as it is proven one framework does not fit all organisations; hence the evolution of PEST to PESTLE the model has recently been extended to STEEPLE and STEEPLED, with the addition of education, ethical and demographic factors. The PEST model shows the most versatility as it can be manipulated and adapted to suit the need of the current business environment.

While VRIO resources are the best, they are quite rare; it is not uncommon for successful organisations to simply be combinations of a large number of VR_O or even V__O resources and capabilities. (Carpenter et al, 2009)

After much research on VRIO I have found that it is a particularly valuable internal analysis framework and is now my own preferred framework of choice, however it does not seem to be a widely used strategic analysis framework currently, and I expect this to change.