

# Chapter 4

## The Internal Assessment

**Strategic Management:  
Concepts and Cases. 9<sup>th</sup> edition**  
Fred R. David

PowerPoint Slides by  
Anthony F. Chelte  
Western New England College

# Chapter Outline

- The Nature of an Internal Audit
- Integrating Strategy and Culture
- Management

# Chapter Outline

- Marketing
- Finance/Accounting
- Production/Operations

# Chapter Outline

- Research and Development
- Management Information Systems
- The Internal Factor Evaluation Matrix (IFE)

# The Internal Assessment

*Great spirits have always encountered  
violent opposition from mediocre minds.*

-- Albert Einstein

# Nature of an Internal Audit

All organizations –

- Strengths
- Weaknesses

# Key Internal Forces

## Distinctive Competencies

- A firm's strengths that cannot be easily matched or imitated by competitors
- Building competitive advantage involves taking advantage of distinctive competencies
- Strategies designed in part to improve on a firm's weaknesses and turn to strengths

# Internal Audit

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

# Internal Audit

Key to organizational success:

- Coordination and understanding among managers from all functional areas

# Internal Audit

## Functional relationships:

- Number and complexity increases relative to organization size

# Internal Audit

## Financial Ratio Analysis:

- Exemplifies complexity of relationships among functional areas of the business

# 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*

# Integrating Strategy and Culture

## Organizational Culture --

- Resistant to change
- May represent a strength or weakness of the firm

# Integrating Strategy and Culture

## Cultural *products*

Values	stories
beliefs	legends
rites	sagas
rituals	language
ceremonies	symbols
myths	heroes

# Integrating Strategy and Culture

Culture can inhibit strategic management:

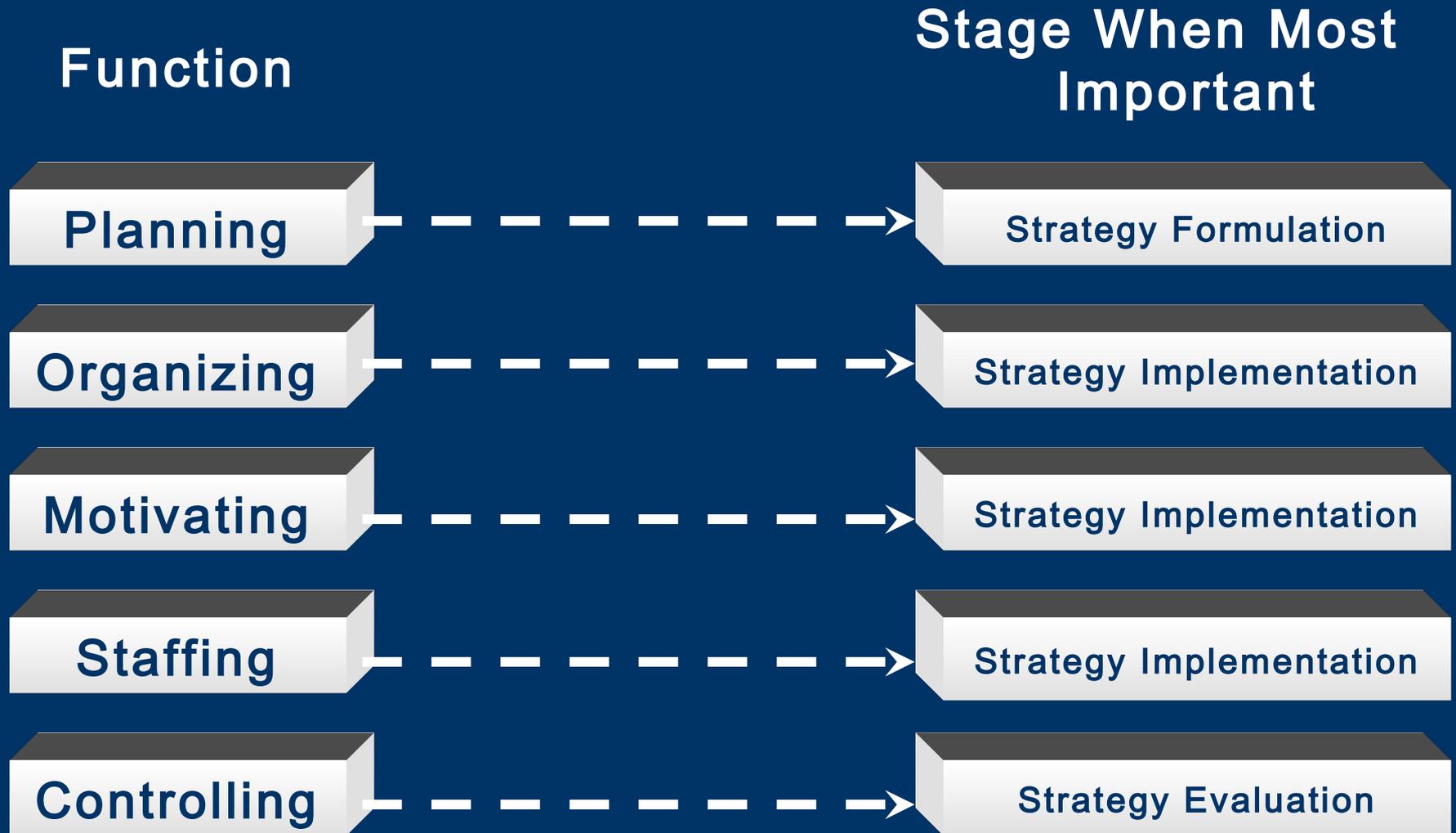
- Miss changes in external environment because they are blinded by strongly held beliefs
- When a culture has been effective in the past, natural tendency to stick with it in future, even during times of major strategic change

# Functions of Management

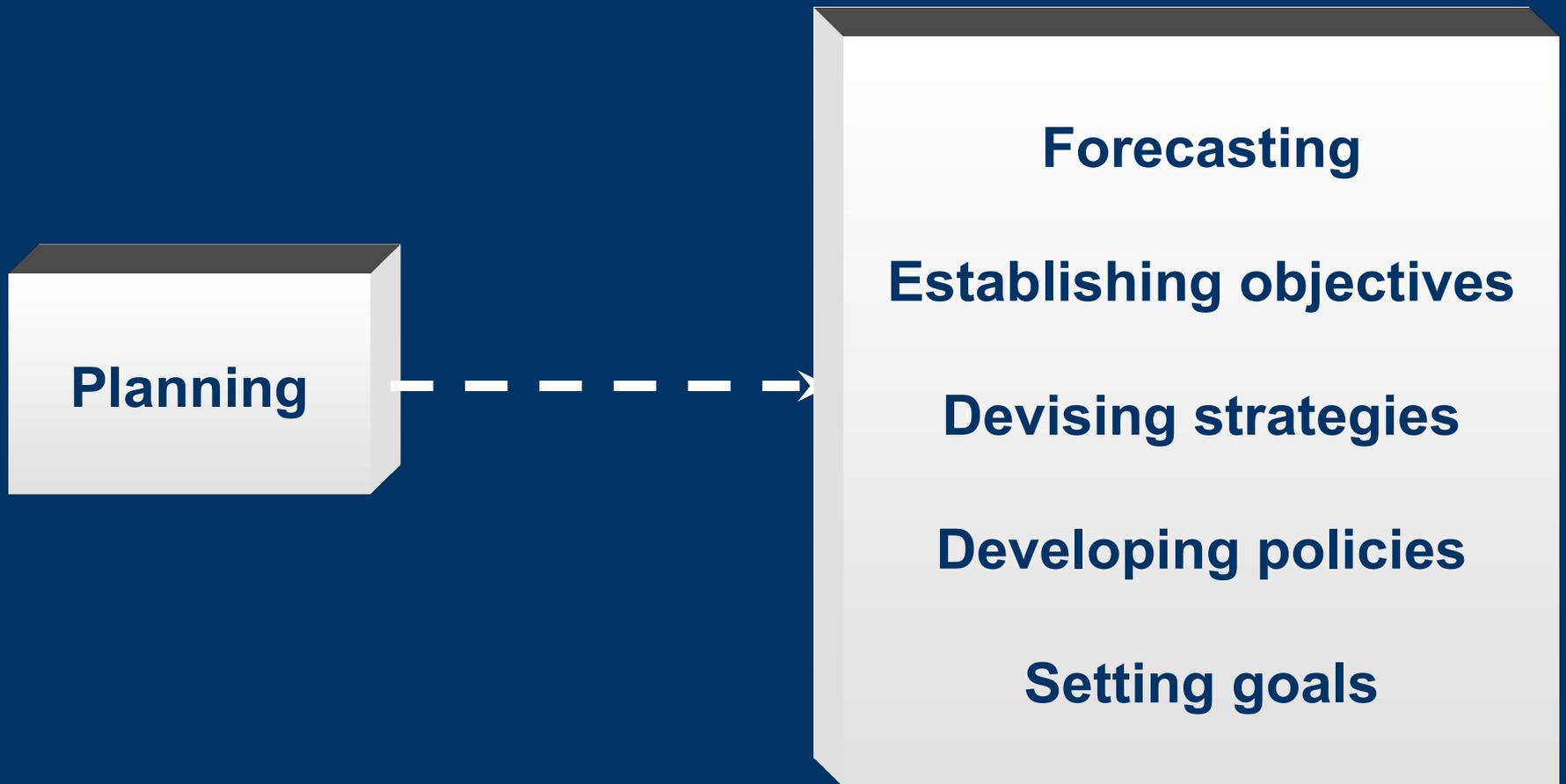
Five basic activities –

- Planning
- Organizing
- Motivating
- Staffing
- Controlling

# Functions of Management



# Planning



# Functions of Management

## Organizing

- Achieve coordinated effort
- Defining task and authority relationships
- Departmentalization
- Delegation of authority

# Organizing

**Organizing**



Organizational design  
Job specialization  
Job descriptions  
Job specifications  
Span of control  
Unity of command  
Coordination  
Job design  
Job analysis

# Functions of Management

## Motivating

- Influencing people to accomplish specific objectives
- Communication is a major component

# Motivating



# Functions of Management

## Staffing

- Personnel management
- Human resources management

# Staffing

**Staffing**

**Wage & salary admin**  
**Employee benefits**  
**Interviewing**  
**Hiring**  
**Firing**  
**Training**  
**Management development**  
**Safety**  
**Affirmative action**  
**EEO**  
**Labor relations**  
**Career development**  
**Discipline procedures**

# Functions of Management

## Controlling

- Ensure actual operations conform to planned operations

# Controlling

**Controlling**



Quality control  
Financial control  
Sales control  
Inventory control  
Expense control  
Analysis of variances  
Rewards  
Sanctions



# Basic Financial Ratios

- *Extent of debt financing*

## Ratios

**Debt-to-total-assets**

**Debt-to-equity**

**Long-term debt-to-equity**

**Times-interest earned**

**Leverage ratios**

# Basic Financial Ratios

- *Effective use of firm's resources*

## Ratios

**Inventory-turnover**

**Fixed assets turnover**

**Total assets turnover**

**Accounts receivable turnover**

**Average collection period**

**Activity ratios**



# Basic Financial Ratios

**Profitability ratios**

- *Effectiveness shown by returns on sales and investment*

## Ratios

**Gross profit margin**

**Operating profit margin**

**Net profit margin**

**Return on total assets (ROA)**

# Basic Financial Ratios

**Profitability ratios  
(continued)**



- *Effectiveness shown by returns on sales and investment*

## Ratios

**Return on stockholders' equity  
(ROE)**

**Earnings per share**

**Price-earnings ratio**

# Basic Financial Ratios

- *Firm's ability to maintain economic position*

Ratios

Sales

Net income

Earnings per share

Dividends per share

Growth ratios



# 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?