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DIAGNOSIS OF THE INTERNAL STRATEGIC CONTEXT OF THE COMPANY STRATEGIC ANALYSIS

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Abstract
The conclusion of the internal strategic diagnostic should not be "we know how to do this" but "how we do it in relation to main competitors, based on the requirements imposed by the environment ", the objective of this diagnosis being determination of the strengths, weaknesses of the company and its distinctive competencies. Identifying of the strengths, weaknesses and of the key success factors will allow the company, on the one hand, to bring remedies to the likely aspects that may compromise its future development, and on the other hand, to build the strategy based on its distinctive competence.
Keywords: Strategic diagnostic, Strengths, Weaknesses, Key success factors, Fundamental competences.

1. INTRODUCTION

Strategic analysis of a company involves a diagnostic strategic of the external environment (the strategic analysis of the competitive environment) and a diagnostic strategic of the internal environment (the internal strategic analysis of the company).

The internal strategic diagnostic of a company intends to investigate its internal potential having in mind the other competitors' positioning the field in which they deploy their activity, thus calculating the relative position of the company compared to its competitors' position in the markets on which it performs.

It's not all about saying „we know how to do this", but „how we do it compared to others, on the respective market", this diagnostic's objective being determining the strengths and the weaknesses of the company and its distinctive competences.

The strengths of a company are its characteristics that put it on a superior position compared to the companies that compete with it, which secures it a competitive advantage (for example: great financial resources, owning of patents, a high degree of utilization of the production capacities, a strong distribution chain etc.).

The weaknesses of a company are its characteristics that puts it on an inferior position compared to the companies that compete with it (for example, an obsolete technology, high production costs, a rigid organization, a faulty management, the lack of negotiation abilities with its clients etc.

The distinctive competence of a company represents an ability of a special, exclusive resource it has, a competence at which the company excels and which represents a competitive advantage, a key success factor.

The same confusion is unfortunately made even in the specialty literature from our country, when it comes to identifying the strength and the weakness! For example, if in a classical diagnostic an increase of the profit is no doubt a positive aspect, when it comes to an internal strategic diagnostic it can't be drawn from an increase of the profit the conclusion that it's a strong point of the company. In the first place, this aspect relates to an activity in the past, which may not be relevant for the future and, in the second place, if a company compares itself to its competitors, the strengths can be represented by those aspects (the causes) that put the company on a superior position relative to its competitors and, in the third place, if that profit is distributed as dividends and not in order to exploit some opportunities of the external environment, in order to consolidate some existent strength or to eliminate some current weakness, this positive aspect from the company's activity can't be seen as a strength.

Identifying the strengths, the weaknesses and the key success factors will allow the company, on the one hand, to ameliorate the aspects that might compromise its future development and, on the other hand, to build its strategy based on its distinctive competence.

Another important issue, which is essential for the strategic diagnostic, is represented by the emphasis that must be laid on the necessary connection between the external and the internal diagnostic, because determining if an aspect constitutes a strength or a weakness for the company, respectively if it's an opportunity or a threat is made only comparing and relating to the competition (Popa et al., 2007). Thus, the existence of skilled workmen can be appreciated as strength only if it's reflected through a superior value (quality) of the products and services the company has to offer, a value which is "acknowledged" on the market in which the company offers its products and services. To that effect, we estimate that the emphasis shouldn't be necessarily laid on a certain order, but on the highlighting of the influence of the two environments: the external and the internal one over the company's activity. Having in mind the new characteristics of the external environment of the company, we believe that in the

Business Excellence and Management
Volume 2 Issue 2 / June 2012

Business Excellence and Management
Volume 2 Issue 2 / June 2012

current stage and in the future, the external environment has and will continue to have a greater area of influence and, as a consequence, any action of strategic diagnostic of a company must start with the external strategic diagnostic and to continue with the internal strategic diagnostic (Carstea et al., 2002).

In the specialty literature from our country, in the early ’90s there were written a lot of papers about the way a company diagnostic must be performed (and in many cases, these papers spoke about the “strategic” diagnostic, because it sounded right), suggesting a lot of strategies to do this, structured in various ways, to the extent of suggesting to measure the company’s global internal potential, based on the evaluation of the various internal factors, using grades and coefficients of importance (without specifying how they were established from the first place). We believe that, in the most of cases, in those attempts, the essential characteristics that we highlighted at the beginning of this paper were overlooked.

In this article, we intend to approach from a different perspective the internal strategic diagnostic, having in mind the real purpose of this undertaking and its connection with the external strategic diagnostic.

We believe that an internal strategic diagnostic undertaking must allow a company’s management:

- *to identify the strengths and the weaknesses of the company both on the whole and of its various strategic fields of activity;*
- *to allow a comparison of a company’s strengths and weaknesses with the ones of the competition;*
- *to allow an evaluation of the relative position of a company compared to an ideal company profile imposed by the external environment and the competitors position;*
- *to allow the establishing of the company’s strategic potential in terms of existent or possible* competitive advantages in relation to the competition.

The diagnostic of a company’s internal potential groups the following four partial diagnostics [8], that will allow a company to understand the true sources of existent competitive advantage and to identify the way in each it can reinforce an existent advantage or to create a new one.

- **the strategic diagnostic of the resources**, which intends to identify the assembly of technical, human, financial and both external and internal informational resources which the company can exploit to apply and consolidate its strategy;
- **the strategic diagnostic of the company’s competences,** respectively the identification of the advantages, of the key success factors, of the “savoir faire” of that company. This

diagnostic will allow the reinforcement of the competitive advantage in the fight for supremacy with the competitors, using these distinctive competences;

- **the value chain analysis**, which allows the systematic identification of the sources of competitive advantage of the company and of its activities;
- **the financial diagnostic**, which will allow a better positioning of the company compared to its main competitors in terms of efficiency and effectiveness.

2. THE STRATEGIC DIAGNOSTIC OF THE RESOURCES

When it comes to this diagnostic, in the first stage there are collected a range of data and information about the resources of the company, on the whole and at the level of each field (segment) of strategic activity, regardless of the field of activity. It can be done a systematization of the most important aspects regarding the company's resources, for ulterior analysis, for different lines of activity in that company, as it results from the Table 1.

TABLE 1 - DIAGNOSIS OF COMPANY RESOURCES

FIELD OF ACTIVITY	CHARACTERISTICS	FIELD OF ACTIVITY	CHARACTERISTICS
Commercial	- range of products - product quality - market shares for products marketed- prices - customer loyalty - quality and cost of distribution - promotion policy - sales forces used after-sales services, etc.	Human Resources	- staff structure - qualification of personnel, recruitment and selection - motivation system - communication system - working conditions - use of work time, etc.
Production	- production equipment - technology used - capacity and its use - the production cycle - production costs - location of production units - experience and scale effects - unfinished production stocks, etc.	Financial	- sources of funding - profitability - debs - liquidity and solvency - capital assets, etc.
Research and Development	- new and upgraded products - innovations, rationalization - research and development potential, etc.	Management	- the size and the organization of the management - organizational flexibility - decision-making process - administrative procedures - control process - managerial methods and techniques used, etc.

After we establish the characteristics of the resources involved in the respective fields, they should be evaluated; this evaluation may be performed categorizing the aspect that should be diagnosed in

Business Excellence and Management
Volume 2 Issue 2 / June 2012

several performance classes (for example, "weak", "relatively weak", "average", "relatively high" and "high"), an aspect that will allow to establish the profile of the competitive capacity of the company on the whole and of each segment of strategic activity, as it results from the Figure 1. We have to specify that the process of categorizing in a certain performance class is not done as such, but in terms of strengths and weaknesses. Categorizing the "production costs" in the "relatively weak" category doesn't imply that the production costs are relatively low, but, on the contrary, that they are relatively high.

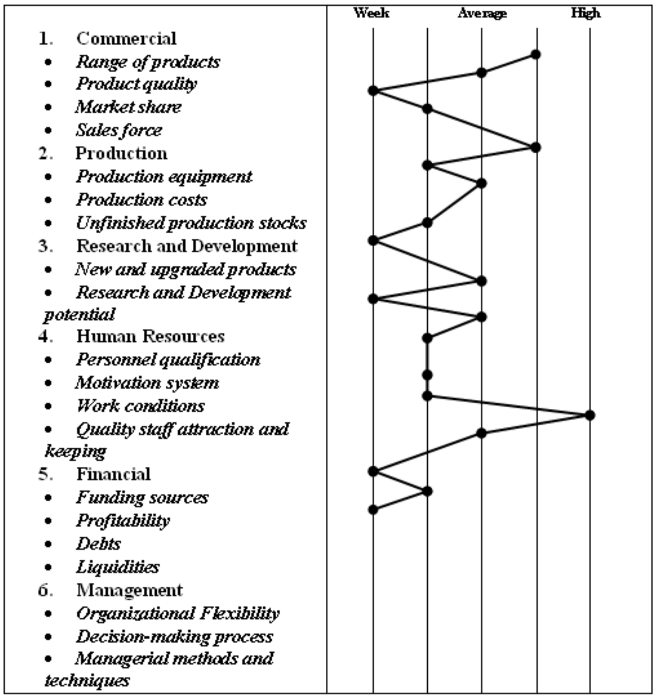

FIGURE 1 – PROFILE OF THE COMPETITIVE STRENGTH OF A COMPANY ON A STRATEGIC BUSINESS SEGMENT

We have to specify that the categorizing of a certain characteristic in a certain performance category is often a subjective one; no matter how many internal sophisticated economic and mathematic estimations are made, we can't eliminate the subjective aspect, especially having in mind that the estimation of a characteristic as a strong or weak point will be done according to the profiles of the main competitors' capabilities and the one imposed in the competitive environment (figures 2 and 3).

It can be noticed from the figure no. 1 that the only aspect in which the company is superior to others is that it isn't indebted to no one. If we keep in mind the current financial context, many will certainly say that it's extraordinary not to be in debt, in this crisis context, but, if we relate to the requirements of the environment and to the competitors (figure 3 and 2), this positive aspect could transform into a weakness for the company. From the ideal profile imposed by the environment (figure 3), it can be drawn the conclusion that in the segment of strategic activity we've analyzed, it may be an usual practice to pay the strategic suppliers relatively late, and the fact that the respective company isn't in debt, in relation to the position of the main competitor in this aspect (figure 2), we inevitably draw the logical conclusion that the negotiation power with the strategic suppliers of the company is on their part, the respective company being an insignificant client and, as a consequence, it doesn't benefit from the facility of paying in time. As a result, this aspect can be transformed into a weakness.

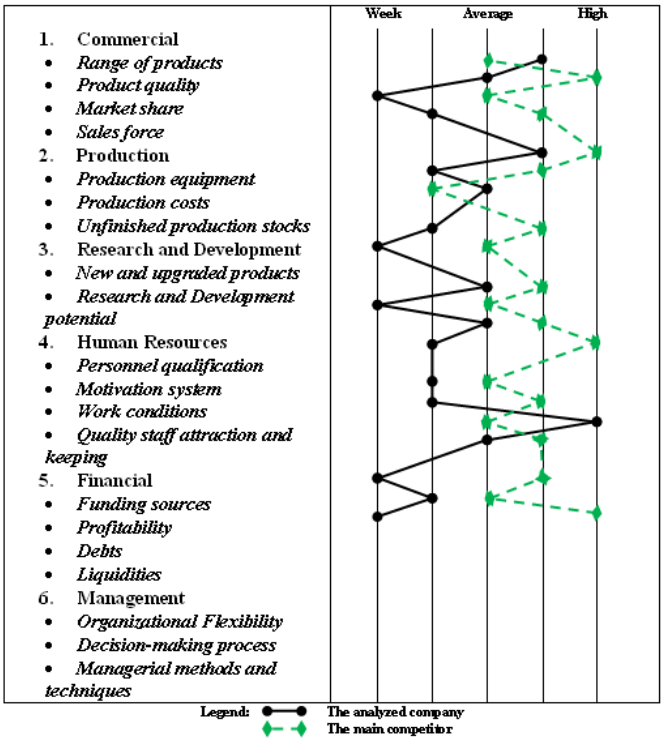

FIGURE 2 – COMPARISON BETWEEN THE COMPETITIVE ABILITY PROFILE OF THE COMPANY AND THE MAIN COMPETITOR'S

The importance of this diagnostic stands in the fact that:

- it allows the identification of some elements (aspects) that are really "weaknesses" having the competition in mind and relative to the requirements of the environment, highlighting the fact that an effort is necessary to be made if the company wants to reduce the difference between its existent performance and the one imposed to it by the environment;
- it allows the identification of these elements (aspects) that are really "strengths", based on which the company will have to consolidate its position or to build its strategy.

The identification of the strengths and the weaknesses in the strategic resources diagnostic is a necessary action, but it's not a sufficient one when it's performed the internal strategic diagnostic, because it doesn't allow an estimation to be done about their importance in the strategic plan and these

Business Excellence and Management
Volume 2 Issue 2 / June 2012

resources can't be placed in a hierarchy according to their strategic importance. As a result, after this first type of diagnostic it must be performed the diagnostic of the company's competences.

3. THE STRATEGIC DIAGNOSTIC OF THE COMPANY'S COMPETENCES

In more than a few cases a company's success in a certain segment of strategic activity depends not only on its advantages on that specific line of business, but on a series of aspects related to the whole company. In general, at a company's level, when it comes to strategy, there are three main categories of competence (Thietart and Xuereb, 2009): additional competence, necessary competence and fundamental competence.

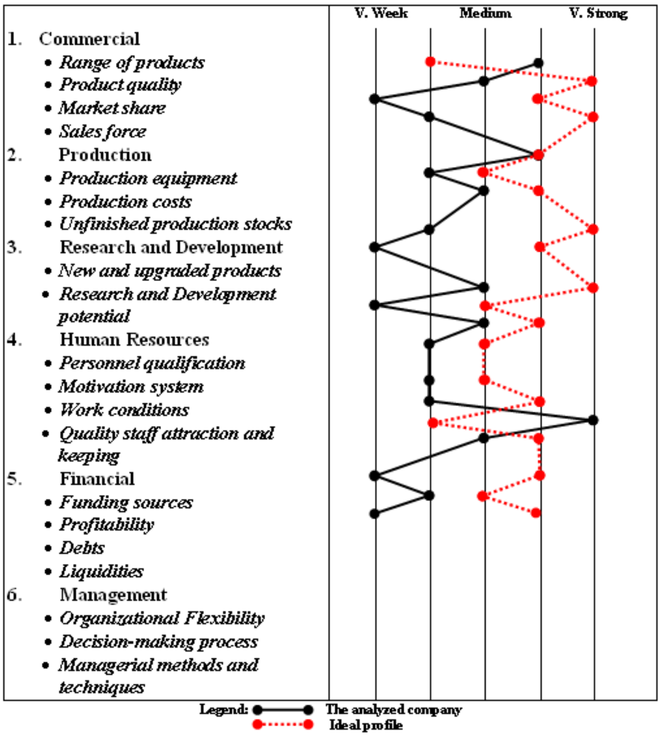

FIGURE 3 – COMPARISON BETWEEN THE COMPETITIVE ABILITY OF THE COMPANY'S PROFILE WITH THE ONE REQUIRED BY THE COMPETITIVE ENVIRONMENT

The additional competences are related to the company's existence itself, not being related to the line of business of the company. For example, the companies which keep their own accountancy or those who keep track of their own stuff, have a minimum of competences in accountancy, respectively in labor law and wage plans.

These competences are widely spread inside companies, they allow their good management, and just in a few cases they can consist in a value source for the company and the clients, thus being elements of competitive advantage.

Necessary (specific) competences are tightly related to the company's line of business.

In order to deploy an activity in any line of business, all the companies which want to take part to that line of business must have some absolutely necessary capabilities (a certain technical facilities, a certain qualification and structure of the labor force, a certain structure of the costs) and, generally speaking, the majority of the companies in a certain field have the competences that are specific to that field. There can be some differences between the level of competences of different companies, related to the level of these competences, the level of the necessary expertise, but the company can't build its strategic competitive advantage based on these differences, because there isn't something constant, (which is an absolutely necessary requirement), the differences between the necessary capabilities being easy to eliminate (even through the simple process of imitation).

The fundamental competences are the ones which are given by those unique or extremely rare advantages which a company has in its respective line of business. For a capability a company has to situate in the category of fundamental competences, it must comply with the following requirements:

- to belong to several strategic lines of business;
- to contribute in a significant way at the process of creating value for the clients,
- to be a distinctive one and hard to emulate by the competition.

In order to have a fundamental competence, you don't necessarily have to invest a lot of money (especially in the research and development field) and you don't have to integrate the activities as much as some people tend to believe. These aspects help to create a fundamental competence, but there aren't enough to create a new fundamental competence.

The fundamental competence stems in the unique body of knowledge a company has and from its capacity to coordinate and integrate its various structures in using this body of knowledge.

The strategic diagnostic of the competences allows the establishment of a global portfolio of competences, which are the basis necessary for substantiating the decisions of using these competences according to the environment of each segment of strategic activity that has been analyzed. An efficient management of the competences portfolio will, on one hand, allow to obtain a competitive advantage by using the fundamental competences or some competences which are specific to a certain line of business in other lines of business, where the competition doesn't have this specific competence (the portfolio of activities being different from one company to another), and, on the other hand, can consist in a source of synergy between the various activities of the company.

Business Excellence and Management
Volume 2 Issue 2 / June 2012

4. THE VALUE CHAIN'S ANALYSIS

In order to establish the sources of the competitive advantage, the specialists suggested various analysis models; a model which was adopted by a lot of specialist is the one suggested by M. Porter and it's entitled the "value chain" (Porter, 2008), a well known model, therefore we will not address the issue.

5. THE FINANCIAL DIAGNOSTIC

As a rule, a company's financial policy is not perceived as a factor of competitive differentiation, not as a strategic advantage; on the contrary, it's perceived as a constraint. This kind of approach from a strategic perspective can prove to be dangerous on the long term, having in mind the tight connections between the finances and the share markets, the growing dynamic, the portfolio strategy, the price strategy, etc. The financial risk and the competitive risk are tightly related one to another.

The financial diagnostic represents one of the most used way of measuring a company's performance making a ratio between the financial means it had and the results. A range of efficiency indicators are considered in this analysis.

- profitability indicators: the commercial profitability ratio, the economic profitability ratio, the assets' profitability ratio, the financial profitability of the capital belonging to a company, the stocks' profitability, etc.;
- indicators regarding the financial balance: the general liquidity ratio, the immediate liquidity ratio, the global financial autonomy ratio, etc.;
- indicators regarding the claims and debts: the period of recuperation of the claims (debts) , the degree of indebtness, the global indebtness degree, etc.;
- indicators regarding the activity of a company: the degree of utilizing of the production capacity, the working efficiency, the efficiency of the utilization of the production equipment, the efficiency of the assets utilization, etc.;
- indicators regarding the costs: the allocation of the costs between various activities, the costs' structure, etc.

The main constraint regarding the financial diagnostic results from the difficulty with which some pertinent and detailed information about the competitors are obtained. The publishing of the accounting audit by companies and comparing various indicators at the level of the whole company don't provide enough amount of strategic information, especially when it comes to a company which has multiple segments of strategic activity.

Generally speaking, having in view the difficulty with which the necessary information regarding the competition and the large amount of money invested can be obtained, the companies appeal to various ways to obtain the information needed (information published by the respective companies), keeping in the windy side of law (collecting information from the clients, suppliers, banks, recruiting the competitors' key staff, etc) and even transgressing the law (appealing to industrial espionage).

Lately, more and more companies appeal to benchmarking as an innovative technique and a method to improve the quality and the performance. Benchmarking basically represents the systematic collection of data and information regarding the products, the activities, the managerial processes, the performance indicators, etc. of the companies from the same line of business or of the top companies from other lines of business, comparing them with the ones of the company. These comparisons will allow the identification of the actions that must be done to increase the competitive advantage and, implicitly, the company's performance.

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