Analysis of Internal Resource: Strengths and Weakness, Resource Audit

An internal analysis is an exploration of your organization’s competency, cost position and competitive viability in the marketplace. Conducting an internal analysis often incorporates measures that provide useful information about your organization’s strengths, weakness, opportunities and threats – a SWOT analysis. The data generated by an internal analysis is important because you can use it to develop strategic planning objectives to sustain and grow your business.

Assumptions

The analysis reflects two assumptions: resource heterogeneity and resource immobility.

1. Resource heterogeneity: A firm's resources reflect its evolutionary path of development, so its collection of resources is "path dependent" and unique. As a result, its resources are "heterogeneous" despite surface similarities. Heterogeneity could be a strength and a source of competitive advantage or a weakness and a source of competitive disadvantage. For example, NGC shares similarities with its competitors. However, it and each of its competitors have traveled different development paths, and their resources are unique.

2. Resource immobility: Some resources are costly or impossible to imitate or acquire. Their supply curves are inelastic (vertical), and a potential buyer's willingness to pay higher prices does not increase supply. At the extreme, there are no sellers.

In addition, Michael Porter and the RBV see the business as a chain of cost-incurring and value-creating activities, beginning with some form of "raw materials" and ending with some form of "finished product/ser-vice."57 At one extreme, the fully integrated firm's activities include the complete value chain (e.g., land + oat seeds = Quaker Oats on the grocery shelf). At the other extreme, the firm may have only one activity (e.g., farmers who provide only land). Analysts examine each cost-incurring and value-creating activity to see how and where the firm creates value to ensure the configuration of activities is functioning optimally. In addition, they look for ways of reconfiguring activities to create greater synergies.

Strengths

Assess your market:

- What is happening externally and internally that will affect our company?
- Who are our customers?

- What are the strengths and weaknesses of each competitor?
- What are the driving forces behind sales trends?
- What are important and potentially important markets?
- What is happening in the world that might affect our company?
- What does it take to be successful in this market? (List the strengths all companies need to compete successfully in this market.)

Assess your company:

- What do we do best?
- What are our company resources – assets, intellectual property, and people?
- What are our company capabilities (functions)?

Assess your competition:

- How are we different from the competition?
- What are the general market conditions of our business?
- What needs are there for our products and services?
- What are the customer-market-technology opportunities?
- What are the customer's problems and complaints with the current products and services in the industry?
- What "If only…." statements does a customer make?

Opportunity is an area of "need" in which a company can perform profitably.

Threat

A challenge posed by an unfavorable trend or development that would lead (in absence of a defensive marketing action) to deterioration in profits/sales.

An evaluation needs to be completed drawing conclusions about how the opportunities and threats may affect the firm.

EXTERNAL:

MACRO- demographic/economic, technological, social/cultural, political/legal

MICRO- customers, competitors, channels, suppliers, publics

INTERNAL RESOURCES: the firm

Importance of Internal Analysis

1. Strength and Competency

An important measure in an internal analysis is to determine your organization's level of strength and competency. A strong organization uses updated technology systems and equipment to accomplish its work. Its financial goals are being met and strategic planning objectives are being accomplished. An organization with strong competency also has a solid brand identity built upon expertise, capabilities and resources within the organization.

2. Organizational Weaknesses

A weak organization is one that uses outdated technology, is lacking in expertise or working with deficient assets. A well-orchestrated internal analysis should bring to light any such organizational weaknesses that exist – areas in need of improvement and objectives that are not being realized. Once your analysis has revealed your deficiencies, you can revise your strategic plan to address and overcome failed objectives and improve or eliminate weaknesses.

3. Cost Position and Opportunity

An internal analysis should determine the cost position of your organization in your industry market and your potential to attract and engage new business opportunities. Cost position involves your business's ability to acquire and manage resources and deliver exceptional value to your customers in a way that is unmatched by rival businesses.

Opportunities for business growth can include venture capital partnerships, relationship prospects in foreign markets and acquisition of competing businesses. An internal analysis can reveal your preparedness to take advantage of business growth opportunities.

4. Looming Threats

Striving to position your business at the top of your industry is an ongoing task. New companies are always entering the marketplace with novel innovations and potential to surpass you. It's important to remain aware of changes in your market, the economy, technology and activities of rival companies that can threaten your viability in the marketplace. Internal analysis provides important information that can help you build on your strengths, prepare for threats and keep your business growing.

5. Competitive Viability

Internal analysis can help you determine how competitive you are in your industry. A competitively viable business challenges its rivals to match the service or product it offers, especially if it's using cutting edge proprietary technology, and has strongly enforced quality control standards.

A competitive business has high intellect human capital – the best and brightest employees contributing their expertise and innovations to daily operations. The most viable companies have consistently climbing sales revenues and use efficient supply chains. An internal analysis will examine the effectiveness of your supplier network, customer loyalty and sales, providing important metrics you can use to amend your business strategies and become a stronger competitor in your industry.

Resource Audit

Resource audit is an internal strategic analysis technique used to understand the current state of an organization's resources and competencies. It helps to identify what the organization currently has that we can build on and what are the areas that it needs to improve upon. Broadly these resources are categorized into two groups - tangible or hard and intangible or soft. The tangible resources comprise physical, financial and human assets, whereas the intangible competencies include the intellectual capital and brand equity.

As the name suggests, the resource audit technique can be used as a check list in taking stock of the hard and soft aspects of the organization's resources. These range from the buildings and financial assets to intellectual capital and brand equity. An important tip is note down both the positive aspects (i.e., strengths) and negative aspects (i.e., weaknesses) under each of the categories.

Given below is the list of the resources under the relevant categories:

- Physical
    - **a)** Buildings, Land
    - **b)** Stock, Equipment
    - **c)** Materials
- Financial

a) Cash flow

b) Credit

❖ Human

a) Staff, roles and responsibilities

b) Expertise and experience

❖ Know-how

a) Trademarks and copyrights

b) Intellectual property

❖ Reputation

a) Brand awareness and brand equity

b) Goodwill in the market and among customers

Types of Resource Audit

1. Audit of Physical Resources

The audit of the physical resources includes listing of physical resources like machines, building, equipment etc, their age, condition of work, life span, capabilities, location etc.

2. Audit of Human Resources

Human resource audit includes assessing, verifying and listing out the number of employers, their skill inventory, age inventory, qualification-wise inventory, knowledge wise inventory and capability-wise inventory.

3. Audit of Financial Resource

Financial resource audit includes analysis and listing out sources and uses of financial resources, capital structure, working capital, accounts receivables, control of debtors and creditors, relationship among shareholders, bankers, debenture holders etc.

4. Audit of Intangibles

The resource audit exercise should not forget the intangibles. Intangibles have value like goodwill. Goodwill plays vital role in service-oriented organizations, retail organizations etc.

Good will is represented by the brand image, customer loyalty, congenial contacts and relations, public image about the firm, quality and reliable service etc.

General Guidelines on Resource Audit

1. The Resource audit should take into considerations all resources necessary for the implementation of the strategy.

2. The audit should not restrict to the legally recognized assets.

3. The Resource audit should also consider the resources/assets outside the organization. These assets include networks, contacts with the customers, dealers, suppliers etc.

4. The Resource audit should also point out the organization's distinctive capabilities in addition to the resources necessary for strategy implementation.