

Organisational Capability Analysis

Dr. M. Thenmozhi

Professor

Department of Management Studies
Indian Institute of Technology Madras
Chennai 600 036

E-mail: mtm@iitm.ac.in

ORGANIZATIONAL APPRAISAL

- Internal Environment - strength & weakness in different functional areas

Organization capability

- Capacity & ability to use distinctive competencies to excel in a particular field
- Ability to use its 'S' & 'W' to exploit 'O' & face 'T' in its external environment

Organization resources

- Physical & human
cost, availability - strength / weakness

ORGANIZATIONAL APPRAISAL

Organization behaviour

Identity & character of an organization

leadership, Mgt. Philosophy, values, culture, Qly of work environment, Organization climate, organization politics etc.

Resource

Behaviour



Distinctive competence - Any advantage a company has over its competitor - it can do something which they cannot or can do better - opportunity for an organization to capitalize - low cost, Superior Quality, R&D skills etc.

METHODS & TECHNIQUES USED FOR ORGANIZATIONAL APPRAISAL

Comprehensive, long term

- Financial Analysis - Ratio Analysis, EVA, ABC
- Key factor rating - Rating of different factors through different questions
- Value chain analysis
- VRIO framework

METHODS & TECHNIQUES USED FOR ORGANIZATIONAL APPRAISAL ...

- BCG, GE Matrix , PIMS, McKinsey 7S
- Balanced Scorecard
- Competitive Advantage Profile
- Strategic Advantage profile
- Internal Factor Analysis Summary

SWOT ANALYSIS

- Identify & classify firm's resources-S&W
- Combine firm's strength into specific capabilities –
Corporate capability- may be distinctive competence
- Strategy that best exploits the firms resources
- Identify resource gaps & Invest in upgrading

ORGANIZATIONAL APPRAISAL

Organizational Capability Profile (OCP) - Weakness(-5), Normal(0), Strength(5)

Financial Capability Profile

- (a) Sources of funds
- (b) Usage of funds
- (c) Management of funds

Marketing Capability Profile

- (a) Product related
- (b) Price related
- (c) Promotion related
- (d) Integrative & Systematic

ORGANIZATIONAL APPRAISAL

Operations Capability Factor

- (a) Production system
- (b) Operation & Control system
- (c) R&D system

Personnel Capability Factor

- (a) Personnel system
- (b) Organization & employee characteristics
- (c) Industrial Relations

General Management Capability

- (a) General Management Systems
- (b) External Relations (c) Organization climate

EXAMPLES OF ORGANIZATIONAL CAPABILITY PROFILE

Financial Capability

Bajaj - Cash Management

LIC - Centralized payment, decentralized collection

Reliance - high investor confidence

Escorts - Amicable relation with Fis

Marketing Capability

Hindustan Lever - Distribution Channel

IDBI/ICICI Bank - Wide variety of products

Tata - Company / Product Image

EXAMPLES OF ORGANIZATIONAL CAPABILITY PROFILE

Operations Capability

Lakshmi machine works - absorb imported technology

Balmer & Lawrie - R&D - New specialty chemicals

Personnel Capability

Apollo tyres - Industrial relations problem

EXAMPLES OF ORGANIZATIONAL CAPABILITY PROFILE

General management capability

Malayalam Manaroma - largest selling newspaper

Unchallenged leadership - Unified, stable

Best edited & most professionally produced

VRIO FRAMEWORK

Resource- asset, competency, skill, knowledge

e.g. patents, brand name,

- **Value** : Does it provide competitive advantage?
- **Rarity**: Do other competitors possess it?
- **Imitability**: Is it costly for others to imitate?
- **Organisation** : Is the firm organised to exploit the resource?

VRIO FRAMEWORK . . .

- A resource is an asset, skill, competency or knowledge controlled by the corporation.
- A resource is a strength if it provides competitive advantage
- e.g. patents, brand name, economies of scale, idea-driven, standardised mass production

VRIO - STEPS

- Identify firms resources- S&W
- Combine firms strength into specific capabilities
- Appraise- profit potential, sustainable competitive advantage, ability to convert it to a profitable proposition
- Select strategy - firm's resources& capability relative to external opportunity
- Identify resource gaps and invest in upgrading weaknesses

BALANCED SCORECARD- KAPLAN & NORTON

4 performance measures

- Customer perspective
- Internal business perspective
- Innovation & learning perspective
- Financial perspective

Balanced Scorecard

- Balanced Scorecard – A model integrating financial and non financial measures. (Kaplan & Norton 1996)
- Causal link between outcomes and performance drivers of such outcomes
- Translates the vision and strategy of a business unit into objectives and measures in 4 distinct areas
 - Financial
 - Customer
 - Internal Business process
 - Learning and growth

The Balanced Scorecard

Purpose of Balanced Scorecard:

A method of implementing a business strategy by translating it into a set of performance measures derived from strategic goals that allocate rewards to executives and managers based on their success at meeting or exceeding the performance measures.

The Balanced Scorecard

(Source: Kaplan & Norton, 1996)

Reasons for the Need of a Balanced Scorecard

1. Focus on traditional financial accounting measures such as ROA, ROE, EPS gives misleading signals to executives with regards to quality and innovation. It is important to look at the means used to achieve outcomes such as ROA, not just focus on the outcomes themselves.

The Balanced Scorecard

(Source: Kaplan & Norton, 1996)

Reasons for the Need of a Balanced Scorecard

2. Executive performance needs to be judged on success at meeting a mix of both financial and non-financial measures to effectively operate a business.

The Balanced Scorecard

(Source: Kaplan & Norton, 1996)

Reasons for the Need of a Balanced Scorecard

3. Some non-financial measures are drivers of financial outcome measures which give managers more control to take corrective actions quickly.

(Example: controls in jet cockpit for pilot)

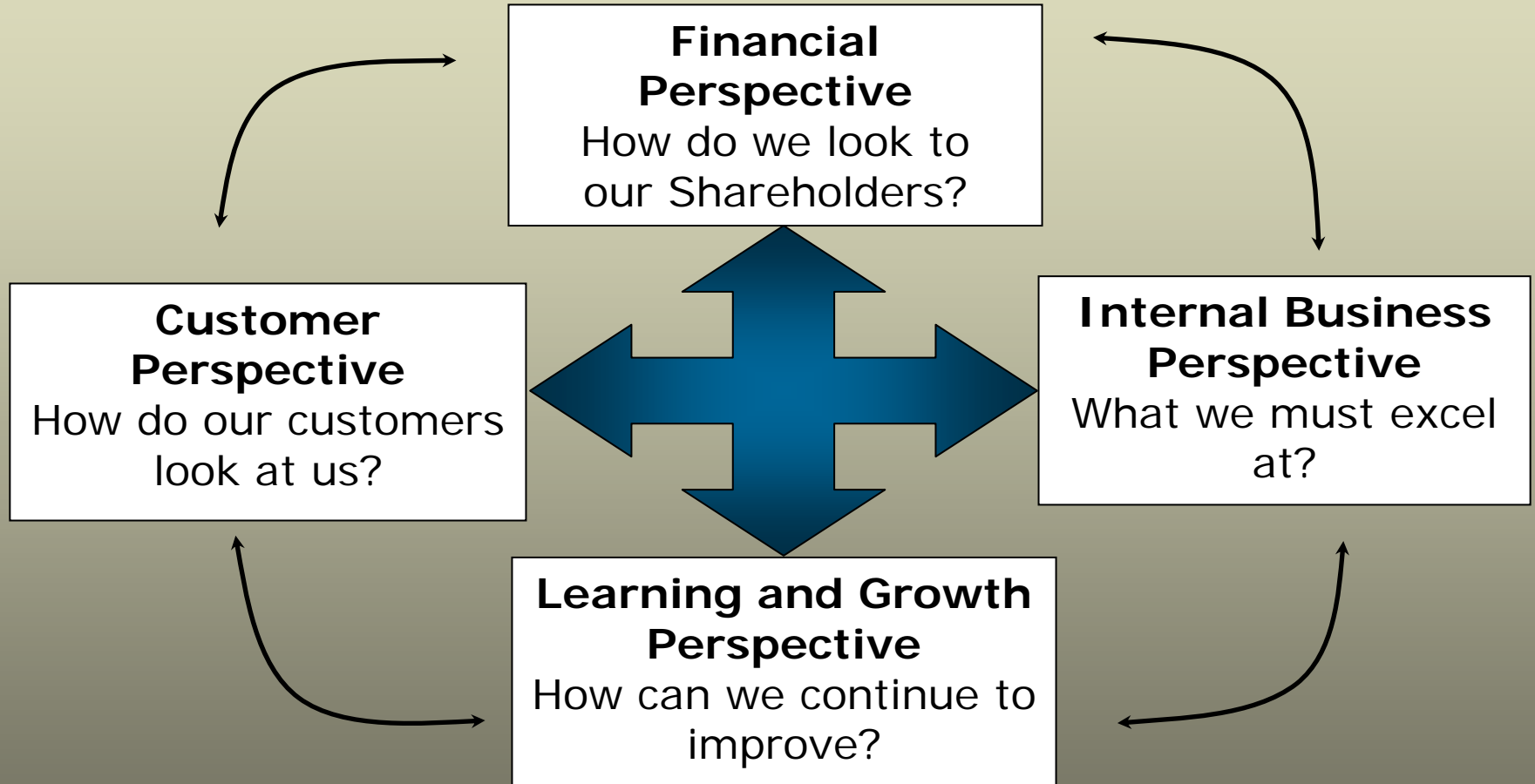
The Balanced Scorecard

(Source: Kaplan & Norton, 1996)

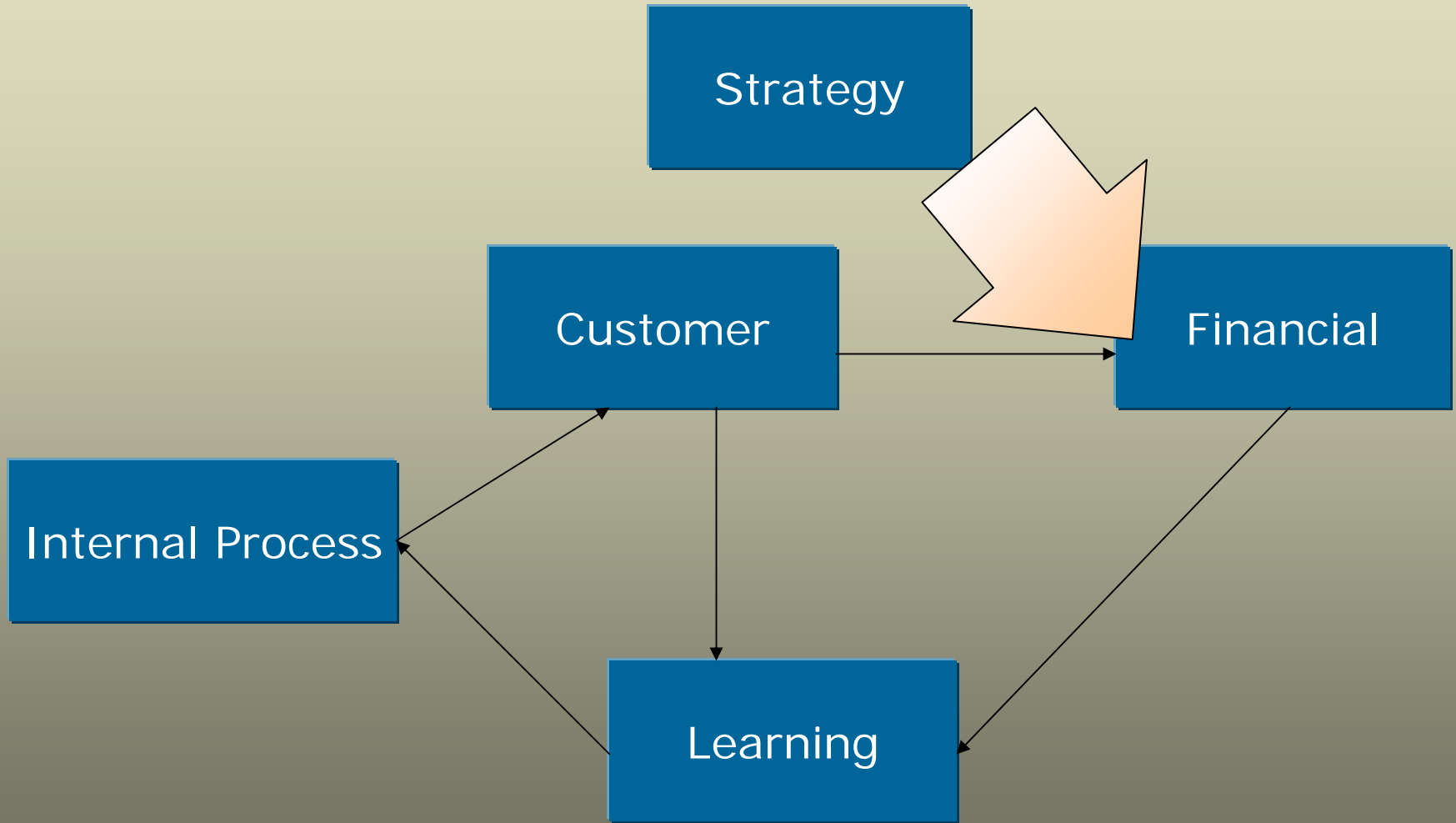
Reasons for the Need of a Balanced Scorecard

4. Too many measures, such as hundreds of possible cost accounting index measures, can confuse and distract an executive from focusing on important strategic priorities. The balanced scorecard disciplines an executive to focus on several important measures that drive the strategy.

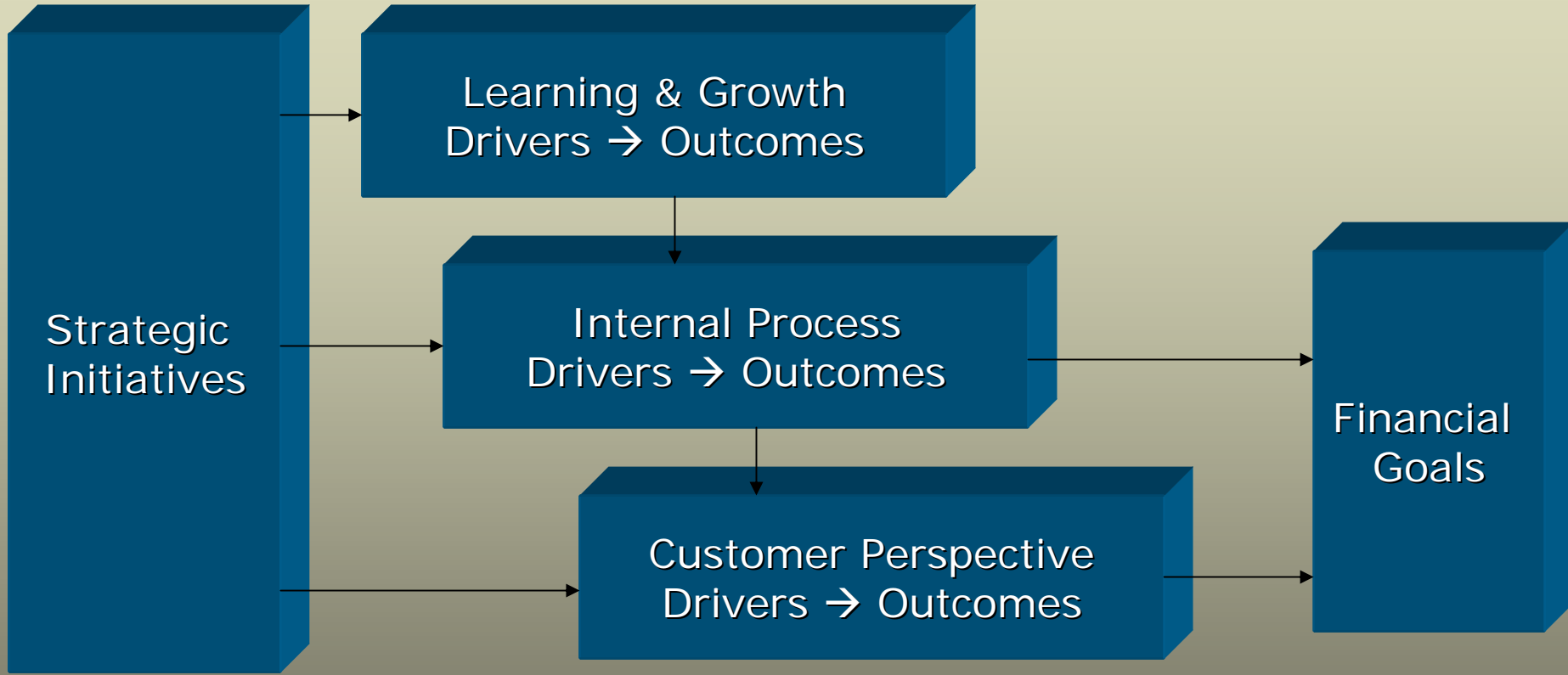
Casual link between the measures



BSC: Causal Relationships



Linking BSC and Strategy



Balanced Scorecard: An Experience of ICICI Bank

(source: icici website)

Key challenges

- Rapid growth in employee base – fresh and lateral recruits
 - Building knowledge and skill base
 - Ensuring adequate focus on multiple perspectives
 - Growth, profitability, service levels, building talent
- Ensuring consistent implementation of strategy across the organisation
 - Aligning organisational, business-level and individual goals
 - Incentivising achievement of the goals set

We were seeking a strategic framework that would enable this.....

Earlier performance management framework

- Primarily focused on financial aspect
 - Other perspectives covered qualitatively
 - “Input” rather than “output” based: focus on “work done” rather than “goals achieved”
- Did not meet the need for additional perspectives
 - Retail strategy required service focus
 - Wholesale banking required focus on transaction capabilities and quality of credit origination

Balanced scorecard at ICICI Bank - Stage I

- Re-defined and expanded financial perspective
 - Growth, market share, profitability and credit costs
- Introduced customer perspective: concept of service levels as an area of performance evaluation
 - Customer satisfaction scores
- Introduced process perspective: focus on building a process orientation in the organisation
- Learning perspective: focus on re-skilling for existing employees and speed-to-job for new recruits

Balanced scorecard at ICICI Bank - Stage II

- Further development and detailing of customer service and process perspectives
- Specific measures of performance introduced
 - Branch service quality scores
 - Turn around time (TAT) benchmarks
 - Good order index for client bankers
 - 5S achievement
- Focused measures served as enablers for meeting financial goals

Balanced scorecard at ICICI Bank - Stage III

- Learning and development perspective
 - So far focused primarily on business skills
 - Commenced activity on building leadership pool
- Reducing the number of scorecard templates
 - Already reduced from 750 to 230 in two years
 - Planned reduction to about 150
- New challenges
 - Scorecards for operations in new geographies outside India

Lessons from ICICI Bank experience

- Performance measures should be output rather than input based
 - People should be assessed on goals not on transactions
 - Removes ambiguity from performance management
- Scorecard need not be balanced for individuals but for business unit as a whole
 - All perspectives may not apply to all people
- Need for scorecard templates
 - Ensures consistency
 - Number of templates should be rationalised based on number of different job descriptions

Lessons from ICICI Bank experience...

- Banks, like other business organisations, are operating in an increasingly complex environment
- In this competitive paradigm, optimally directing all resources towards organisational goals in a focused manner is the key to access
 - Having a strategy is not good enough
 - The strategy must be
 - Articulated
 - Understood
 - Executed
- The balanced scorecard is a tool that helps communicate strategy and goals across the organisation

Lessons from ICICI Bank experience...

- The balanced scorecard at ICICI Bank has helped achieve:
 - Rapid business growth
 - Strategic consistency despite growing scale and diversity
 - Systematic and objective performance evaluation
- The balanced scorecard can help to build a platform for sustained future growth and value creation

FINANCIAL ANALYSIS

- Ratio Analysis
- Economic value added – NOPAT-WACC
- Activity Based Costing
 - activity in Value chain
 - specific activities

COMPETITIVE ADVANTAGE PROFILE: A Case of Berger Paints

Marketing Factors

- ❁ Market leader - 35% share in organized sector
- ❁ Closest competitor - less than half of AP's market share
- ❁ >20 yrs - leader
- ❁ Widest product range - product shades, pack sizes
- ❁ 40 different decorative paints - 150 shades, 8 different sizes in packing, no. of brands - all segments
- ❁ Brands - quite powerful

COMPETITIVE ADVANTAGE PROFILE

Marketing Factors

high quality MR & MIS , 90% accuracy in forecasting,
100 fastest moving Stock Keeping Units,
monitored daily

❁ Countrywide distribution - 13000 dealers (comp-
<8000) - large network- regional offices, company
depots

❁ Physical distribution far superior to competitors

❁ strong in inventory control (28 days) of sales (industry
avg. 51 days, service level - high, credit o/s - <25
days (comp 40 days)

COMPETITIVE ADVANTAGE PROFILE

Manufacturing/Operations factors

- Size advantage in relation to competitors
- Finesse in production planning, scheduling, matching with marketing requirements
- In – house production - no outsourcing - high reliability suppliers - superior quality assurance
- Four production location - spread benefits

Human Resources

- High caliber HR
- Professionals - MBAs more

COMPETITIVE ADVANTAGE PROFILE




Finance factors

- ✚ Leader in profits & operating margins, ROI 40%, rest of industry 22%, Networth 204 cr, 58 cr - Nerolac, 41 cr - Berger
- ✚ Cash rich

Corporate factors

- ✚ Awards
- ✚ High profile corporate image
- ✚ Enviably track record in breaking away the position of MNCs in the Indian paint Industry

PORTFOLIO ANALYSIS

-  27% of fortune 500 companies use it in strategy formulation
-  Top management views its product lines and business units as a series of investment return
-  Product lines/Business units - a portfolio of investment - company constantly juggle - to get yield

STRATEGIC ADVANTAGE PROFILE (SAP)

A picture of the more critical areas which can have a relationship of the strategic posture of the firm in the future.

Capability Factor Competitive strengths / Weakness

- | | | |
|--------------|---|--|
| •Finance | ↓ | High cost of capital, reserves & surplus |
| •Marketing | → | Fierce competition, company position secure |
| •Operational | ↑ | P&M - excellent - parts & components available |

STRATEGIC ADVANTAGE PROFILE (SAP)

Capability Factor

Competitive strengths / Weakness



•Personnel

Quality of management & personnel
par with competition



•General

High Quality experienced top
management - take proactive stance

BCG GROWTH - SHARE MATRIX

Matrix of

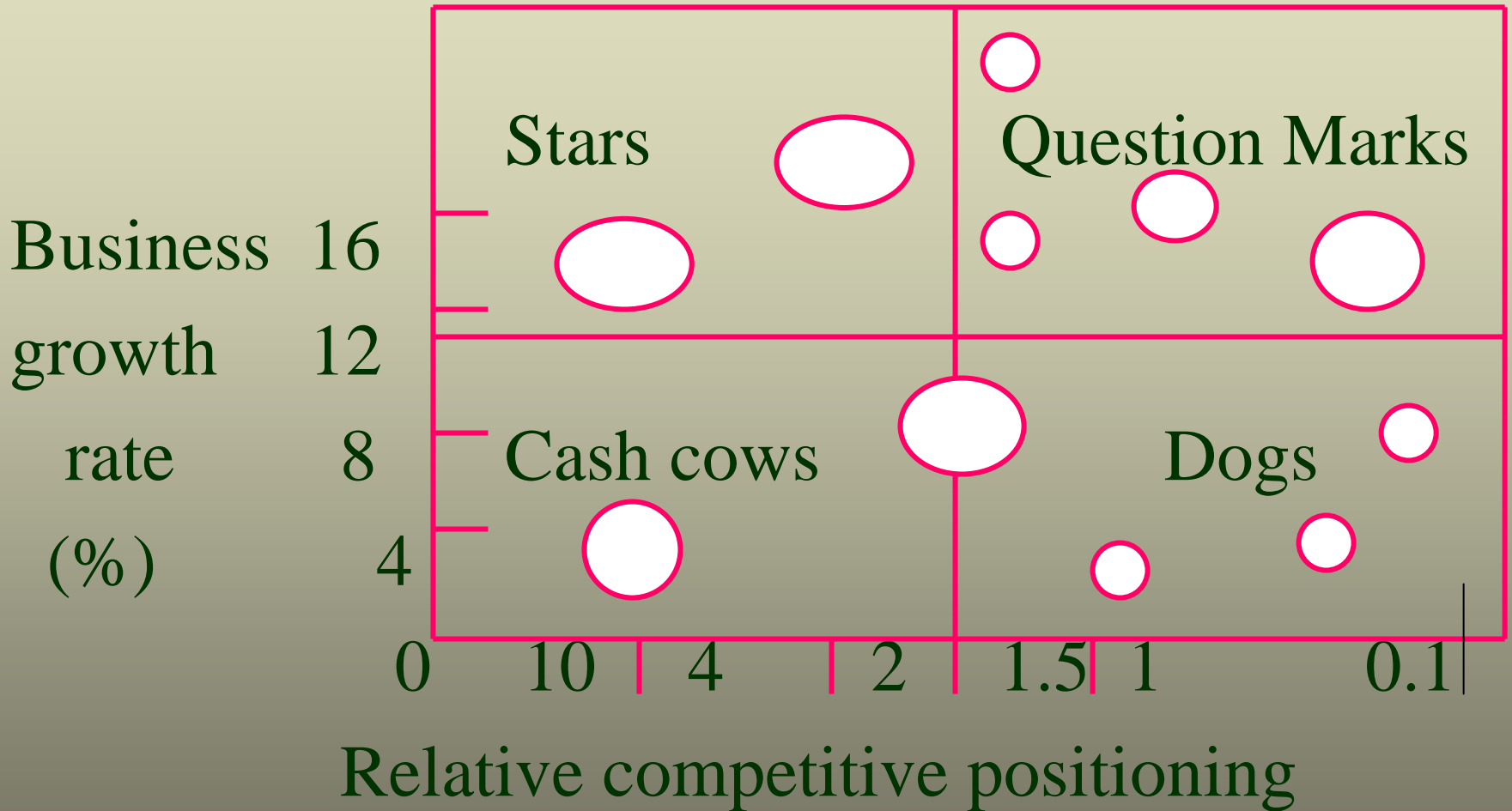
- Growth rate of the industry - % of increase in sales
- Market share

Relative market share of a firm = Market share in industry/market share of the largest other competitor

- > 1 indicates market leader

Assumption : Other things equal - growing market is attractive

BCG GROWTH - SHARE MATRIX



BCG GROWTH - SHARE MATRIX

Line separating high & low competition position set at 1.5 times (needed to have dominant position & to be called as star/cash cow), <1 times - dog status

A product Area of circle significance to company
- in terms of assets used/sales

Similar to product life cycle

BCG GROWTH - SHARE MATRIX

Star - Market leader, peak of product life cycle, enough cash to maintain high share (market),

Growth rate slow - becomes cash cows,

More resources - investment to support high growth

No immediate profits - great potential - future

Medium risk category

Question Marks - (Problem children/wild cats) - New products with potential for success - More resources bit future uncertain - high risk category

Money taken from mature products & spent on ?

Slow growth → dogs

BCG GROWTH - SHARE MATRIX

Cash cows - more money than needed for maintaining market share - Declining stage of life cycle

Cash milked from for investment in ?

Higher profit

Dogs - Weak market share, low growth market cash trap of the company

Identify Issues - current position & future position without change in the strategy

Goal - Maintain balanced portfolio - self sufficient in cash

Limitations - Low share business may also be profitable market share - relative to one (market leader/competition) other factors that determine success

GE PORTFOLIO MATRIX

☘ Industry attractiveness

☘ Company's business strengths/Competitive position

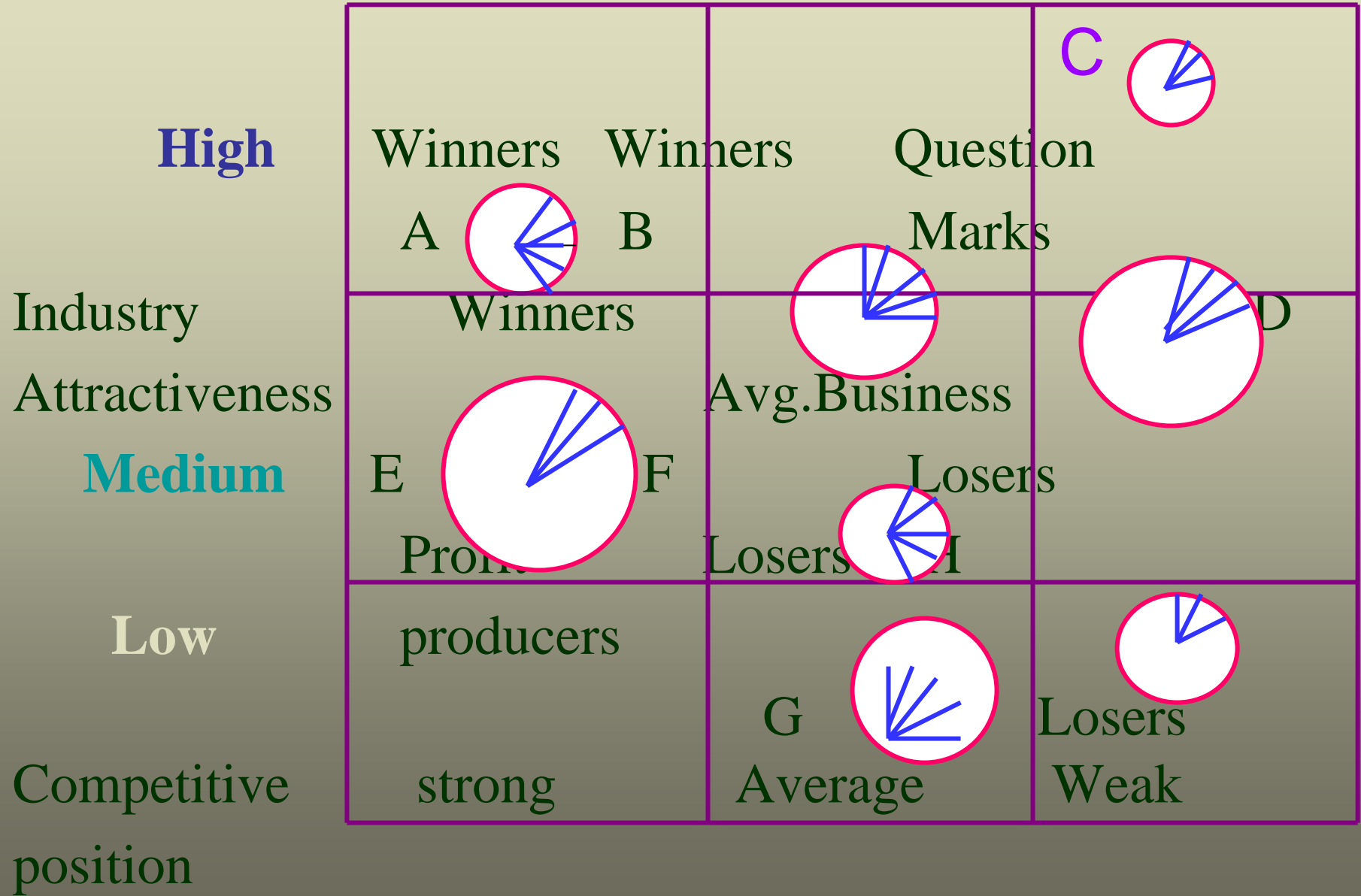
Industry attractiveness - market growth rate, industry profitability, size, pricing practices, opportunities/ threats
scale 1 - 5 Very unattractive to very attractive

Business strengths - Market share, technological position, profitability, size, strengths & weakness
scale 1-5, 1- very weak, 5 - very strong

Product line - a letter, circle - area - (size - scales) pie - market share

Identify performance group - current & projected portfolio without any change in strategy

GE PORTFOLIO MATRIX



PIMS

- Profit Impact of Market Strategy (PIMS) was started at General Electric, and was later used by Strategic Planning Institute (SPI).
- SPI uses multi dimensional cross-sectional regression studies of profitability of more than 2000 businesses. It then develops industry characteristics, Business Average Profitability, and compares it with performances in the concerned company
- Profitability is closely linked with market share. A 10% improvement in profitability is linked with 5% improvement in Return on Investment

MCKINSEY'S 7S FRAMEWORK

Style

One of the seven levers which top management can use to bring about organization Change

With change of systems & procedures

- style of functioning changes
- Culture of organization changes

Staff

Update knowledge & skills to keep pace with change

MCKINSEY'S 7S FRAMEWORK

Strategy

Includes purpose, mission, objectives, goal, action plans & policies

7S model emphasize - Development easy – execution

Systems

Procedures & methods framed by organization & followed by operational personnel in the respective functional area

Traditional systems Change in view of advanced
technology & processes developed

MCKINSEY'S 7S FRAMEWORK

Structure

relationship between/among various positions and activities

Design of structure - critical task for top mgmt.

Need based structural changes - to cope with specific strategic tasks without abandoning basic structural divisions throughout the organizations

Skills

Acquainted with state of the art technology & improvised methods & practices

MCKINSEY'S 7S FRAMEWORK - SKILLS

Procter & Gamble - Best known - Skills in product management

- Hindustan Lever & Richardson Hindustan - Marketing skills
- BHEL, TELCO, L&T - Engineering skills
- DCL, Mecon & M.N. Dastur & Company - project consulting skills
- Dominant Skill in an organization - Part of organization acquired through continuous effort
Organization change - acquire & develop new skills

MCKINSEY'S 7S FRAMEWORK

Superordinate Goals

- Fundamental ideas of business
- Main values
- Broad notions of future directions

MCKINSEY'S FRAMEWORK

“A set of values and aspirations that goes beyond the conventional formal statement of corporate objectives. All targets and attention of all activities and exercise of the other six levers of any organization should be directed towards accomplishment of the best possible goals”

- the ultimate & terminal point - where organization will have to reach

Effective organizational change

- May be understood as a complex relationship between 7Ss.

INTERNAL FACTORS ANALYSIS SUMMARY

Internal factors	weight	rating	weighted score	Comments
Strengths				
Quality	.20	4	.80	Important to success of products
Top management	.10	5	.50	Generally well versed with the local conditions
Process engg	.05	1	.05	Lack of innovative thinking engineers
Employee skills	.05	2	.10	Has to improve multi cultural skilled work force

Cont....

Internal factors	weight	rating	weighted score	Comments
Weaknesses				
R&D	.10	4	.40	Improve the quality of its R&D work force
Acquisition of Capital	.10	4	.40	Must improve negotiating skills with financial institutions...
Retailing	.15	3	.45	Improve retailing infrastructure
Advertising	.05	1	.05	Improve brand image
Time to market	.10	2	.20	Improve speed of decision making
Total	1.00		3.15	

TOWS Matrix

<p>Internal</p> <p>External</p>	<p>(S)</p> <p>List 5-10</p> <p>Internal strengths</p>	<p>(W)</p> <p>List 5-10</p> <p>Internal Weakness</p>
<p>(O)</p> <p>List 5-10</p> <p>External Opportunities</p>	<p>SO Strategies</p> <p>Use 'S' to take advantage of 'O'</p>	<p>WO Strategies</p> <p>Take advantage of 'O' by overcoming 'W'</p>
<p>(T)</p> <p>List 5-10</p> <p>External Threats</p>	<p>ST Strategies</p> <p>Use 'S' to avoid 'T'</p>	<p>WT Strategies</p> <p>Minimize 'W' and avoid 'T'</p>

- Generate Alternative Strategies