Chapter Outline

The Nature of an Internal Audit

The Resource-Based View (RBV)

Integrating Strategy & Culture
Chapter Outline (cont’d)

Management

Marketing

Opportunity Analysis
Chapter Outline (cont’d)

Finance/Accounting

Production/Operations

Research & Development
The Internal Factor Evaluation (IFE) Matrix
Internal Assessment

“Great spirits have always encountered violent opposition from mediocre minds.”
– Albert Einstein

“Weak leadership can wreck the soundest strategy.”
– Sun Tzu
Nature of an Internal Audit

Functional Areas of Business

– Strengths
– Weaknesses
FIGURE 4-1
A Comprehensive Strategic-Management Model

1. Perform External Audit
   - Chapter 3
2. Develop Vision and Mission Statements
   - Chapter 2
3. Perform Internal Audit
   - Chapter 4
4. Establish Long-Term Objectives
   - Chapter 5
5. Generate, Evaluate, and Select Strategies
   - Chapter 6
6. Implement Strategies—Management Issues
   - Chapter 7
7. Implement Strategies—Marketing, Finance, Accounting, R&D, and MIS Issues
   - Chapter 8
8. Measure and Evaluate Performance
   - Chapter 9

Strategy Formulation
Strategy Implementation
Strategy Evaluation

Nature of an Internal Audit

The Basis for Objectives & Strategies

- Internal strengths/weaknesses
- External opportunities/threats
- Clear statement of mission
Key Internal Forces

Functional Business Areas:

- Vary by organization
- Divisions have differing strengths & weaknesses
Key Internal Forces

- A firm’s strengths that cannot be easily matched or imitated by competitors are called distinctive competencies. Building competitive advantages involves taking advantage of distinctive competencies.

- Strategies are designed in part to improve on a firm’s weaknesses, turning them into strengths, and maybe even into distinctive competencies.
Key Internal Forces

Distinctive Competencies:

- Strategies designed to improve on a firm’s weaknesses and turn to strengths
Parallels process of external audit

• Information from:
  • Management
  • Marketing
  • Finance/accounting
  • Production/operations
  • Research & development
  • Management information systems
The Process of Performing an Internal Audit

1. The process of performing an internal audit closely parallels the process of performing an external audit. Representative managers and employees from throughout the firm need to be involved in determining a firm’s strengths and weaknesses.

2. Performing an internal audit requires gathering, assimilating, understanding, and evaluating information about the firm’s operations.
The Process of Performing an Internal Audit

3. Compared to the external audit, the process of performing an internal audit provides more opportunity for participants to understand how their jobs, departments, and divisions fit into the whole organization.

4. Financial ratio analysis exemplifies the complexity of relationships among the functional areas of business.
Resource Based View (RBV)

Internal resources come from three categories.

1. Physical resources: plant, equipment, location, technology, raw materials, machines, etc.

2. Human resources: employees, training, experience, intelligence, knowledge, skills, abilities, etc.

3. Organizational resources: firm structure, planning processes, information systems, patents, trademarks, copyrights, databases, etc.
The Basic principle

- The mix, type, amount, and nature of a firm's internal resources should be considered first and foremost in devising strategies that can lead to sustainable competitive advantage.
- Firms should pursue strategies that are not currently being implemented by any competing firm.
Evaluating Key Resources

VRIO Framework

How to identify the key resources?

Base on four criteria:

1. Value: *Does it provide competitive advantage?*
2. Rareness: *Do other competitors possess it?*
3. Imitability: *Is it costly for others to imitate?*
4. Organization: *Is the firm organized to exploit the resource?*
Organizational culture can be defined as a pattern of behavior developed by an organization as it learns to cope with its problem of external adaptation and internal integration that has worked well enough to be considered valid and to be taught to new members as the correct way to perceive, think, and feel.

Remarkably resistant to change, culture can represent a major strength or weakness for the firm.
Integrating Strategy & Culture

Cultural Products

- Legends
- Values
- Beliefs
- Heroes
- Symbols/signs
- Myths/traditions
- Rites/customs
- Rituals/means

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Integrating Strategy & Culture

Organizational Culture Can Inhibit Strategic Management

- Miss external changes due to strongly held beliefs
- Natural tendency to “hold the course” even during times of strategic change
- Organizational culture significantly affects business decisions and thus, must be evaluated during an internal strategic-management audit.
To successfully compete in world markets, U.S. managers must obtain a better knowledge of historical, cultural, and religious forces that motivate and drive people in other countries.
In Japan, for example, business relations operate within the context of wa, which stresses group harmony and social cohesion.

In China, business behavior revolves around guanxi, or personal relations.

In Korea, activities involve concern for inhwa, or harmony based on respect of hierarchical relationships, including obedience to authority.
U.S. managers have a low tolerance for silence, whereas Asian managers view extended periods of silence as important for organizing and evaluating one’s thoughts.
<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>TABLE 4-2 Cultural Pitfalls That You Need to Know</td>
<td></td>
</tr>
</tbody>
</table>

- Waving is a serious insult in Greece and Nigeria, particularly if the hand is near someone’s face.
- Making a “good-bye” wave in Europe can mean “No,” but it means “Come here” in Peru.
- In China, last names are written first.
- A man named Carlos Lopez-Garcia should be addressed as Mr. Lopez in Latin America, but as Mr. Garcia in Brazil.
- Breakfast meetings are considered uncivilized in most foreign countries.
- Latin Americans are on average 20 minutes late to business appointments.
- Direct eye contact is impolite in Japan.
- Don’t cross your legs in any Arab or many Asian countries—it’s rude to show the sole of your shoe.
- In Brazil, touching your thumb and first finger—an American “Okay” sign—is the equivalent of raising your middle finger.
- Nodding or tossing your head back in southern Italy, Malta, Greece, and Tunisia means “No.” In India, this body motion means “Yes.”
- Snapping your fingers is vulgar in France and Belgium.
- Folding your arms across your chest is a sign of annoyance in Finland.
- In China, leave some food on your plate to show that your host was so generous that you couldn’t finish.
- Do not eat with your left hand when dining with clients from Malaysia or India.
- One form of communication works the same worldwide. It’s the smile—so take that along wherever you go.
Probably the biggest obstacle to the effectiveness of U.S. managers, or managers from any country working in another, is the fact that it is almost impossible to change the attitude of a foreign workplace. “The system drives you; you cannot fight the system or culture,” says Bill Parker, president of Phillips Petroleum in Norway.
Management

Functions of Management

1. Planning
2. Organizing
3. Motivating
4. Staffing
5. Controlling
Management

Function

- Planning
- Organizing
- Motivating
- Staffing
- Controlling

Stage When Most Important

- Strategy Formulation
- Strategy Implementation
- Strategy Evaluation
Management Planning

- Beginning of management process
- Bridge between present & future
- Improves likelihood of attaining desired results
Planning

Forecasting
Establishing objectives
Devising strategies
Developing policies
Setting goals
Management

Organizing

- Achieves coordinated effort
- Defines task & authority relationships
- Departmentalization
- Delegation of authority
Management

Organizing

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

Motivating

- Influencing to accomplish specific objectives
- Communication – major component
Management

Motivating

Leadership
Communication
Work groups
Job enrichment
Job satisfaction
Needs fulfillment
Organizational change
Morale
Management

Staffing

- Personnel management
- Human resource management
Management

Staffing

- Wage & salary admin.
- Employee benefits
- Interviewing
- Hiring
- Discharging
- Training
- Management development
- Affirmative action
- Labor relations
Management

Controlling

- Establishing performance standards
- Ensure actual operations conform to planned operations
- Taking corrective actions
Controlling

Management

Controlling

Quality
Financial
Sales
Inventory
Expense
Analysis of variance
Rewards
Sanctions
Management Audit Checklist

• Does the firm use strategic management concepts?
• Are objectives/goals measurable? Well communicated?
• Do managers at all levels plan effectively?
Management Audit Checklist

• Do managers delegate well?
• Is the organization’s structure appropriate?
• Are job descriptions clear?
• Are job specifications clear?
• Is employee morale high?
Management Audit Checklist

• Is employee absenteeism low?
• Is employee turnover low?
• Are the reward mechanisms effective?
• Are the organization’s control mechanisms effective?

This checklist can help determine specific strengths and weaknesses. “No” answers indicate potential weaknesses, while “Yes” answers indicate areas of strength.
Marketing can be described as the process of defining, anticipating, creating, and fulfilling customers’ needs and wants for products and services.
Marketing

Marketing Functions

1. Customer analysis
2. Selling products/services
3. Product & service planning
4. Pricing
5. Distribution
6. Marketing research
7. Opportunity analysis
Customer Analysis

- Customer analysis—the examination and evaluation of consumer needs, desires, and wants—involves administering customer surveys, analyzing consumer information, evaluating market positioning strategies, developing customer profiles, and determining optimal market segmentation strategies.

  a. The information generated by customer analysis can be essential in developing an effective mission statement.

  b. Successful organizations continually monitor present and potential customers’ buying patterns.
3. Successful strategy implementation generally rests on the ability of an organization to sell some product or service. Selling includes many marketing activities such as advertising, sales promotion, publicity, and so on. Table 4.4 lists the firms which spend the most on advertising.
<table>
<thead>
<tr>
<th>Company</th>
<th>2005</th>
<th>2006</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>P&amp;G</td>
<td>3.2</td>
<td>3.3</td>
<td>-03.3</td>
</tr>
<tr>
<td>GM</td>
<td>3.0</td>
<td>2.3</td>
<td>-23.7</td>
</tr>
<tr>
<td>AT&amp;T</td>
<td>1.7</td>
<td>2.2</td>
<td>-30.8</td>
</tr>
<tr>
<td>Verizon</td>
<td>1.8</td>
<td>1.9</td>
<td>-10.4</td>
</tr>
<tr>
<td>Time Warner</td>
<td>2.1</td>
<td>1.8</td>
<td>-12.0</td>
</tr>
<tr>
<td>Ford</td>
<td>1.6</td>
<td>1.7</td>
<td>-08.5</td>
</tr>
<tr>
<td>Walt Disney</td>
<td>1.4</td>
<td>1.4</td>
<td>-00.9</td>
</tr>
<tr>
<td>DaimlerChrysler</td>
<td>1.6</td>
<td>1.4</td>
<td>-10.7</td>
</tr>
<tr>
<td>Johnson &amp; Johnson</td>
<td>1.6</td>
<td>1.3</td>
<td>-19.8</td>
</tr>
<tr>
<td>News Corp.</td>
<td>1.3</td>
<td>1.3</td>
<td>-02.4</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td>-02.8</td>
</tr>
</tbody>
</table>

Product and Service Planning

- Product and service planning include activities such as test marketing; product and brand positioning; devising warranties; packaging; determining product options, product features, product style, and product quality; deleting old products; and providing for customer service.

1. One of the most effective product and service planning techniques is test marketing.

2. Consumer goods companies use test marketing more frequently than industrial goods companies. It can allow companies to avoid substantial losses by revealing weak products and ineffective marketing approaches before large-scale production begins.
Five major stakeholders affect pricing decisions: consumers, governments, suppliers, distributors, and competitors.

1. Sometimes an organization will pursue a forward integration strategy primarily to gain better control over prices charged to consumers.

2. Governments can impose constraints on price fixing, price discrimination, minimum prices, unit pricing, price advertising, and price controls.
Distribution

- Distribution includes warehousing, distribution channels and coverage, retail site locations, sales territories, inventory levels and location, transportation carriers, wholesaling, and retailing.

1. Distribution becomes especially important when a firm is striving to implement a market development or forward integration strategy.

2. Successful organizations identify and evaluate alternative ways to reach their ultimate market.
Marketing research is the systematic gathering, recording, and analyzing of data about problems relating to the marketing of goods and services.

- Marketing research can uncover critical strengths and weaknesses, and marketing researchers can employ numerous scales, instruments, procedures, concepts, and techniques to gather information.

- Marketing research activities support all major business functions.
Opportunity Analysis

The next function of marketing is opportunity analysis, which involves assessing the costs, benefits, and risks associated with marketing decisions.

a. Three steps are required to perform a cost/benefit analysis: (1) compute the total costs associated with a decision, (2) estimate the total benefits from the decision, and (3) compare the total costs with the total benefits.

b. As expected benefits exceed total costs, an opportunity becomes more attractive.
1. Are markets segmented effectively?
2. Is the organization positioned well among competitors?
3. Has the firm’s market share been increasing?
4. Are the distribution channels reliable & cost effective?
5. Is the sales force effective?
Marketing

Opportunity Analysis

6. Does the firm conduct market research?
7. Are product quality & customer service good?
8. Are the firm’s products/services priced appropriately?
9. Does the firm have effective promotion, advertising, and publicity strategies?
Marketing Opportunity Analysis

10. Are the marketing, planning, and budgeting effective?

11. Do the firm’s marketing managers have adequate experience and training?
Determining financial strengths & weaknesses key to strategy formation
Importance of Finance and Accounting

1. Financial condition is often considered the single best measure of a firm’s competitive position and overall attractiveness to investors. Determining an organization’s financial strengths and weaknesses is essential to formulating strategies effectively.

2. A firm’s liquidity, leverage, working capital, profitability, asset utilization, cash flow, and equity can eliminate some strategies as being feasible alternatives.
Finance/Accounting Functions

According to James Van Horne, the functions of finance/accounting comprise three decisions:

1. Investment decision (Capital budgeting)
2. Financing decision
3. Dividend decision
Basic Financial Ratios

Firm’s ability to meet its short-term obligations

Ratios

Current ratio
Quick (or acid test) ratio

Liquidity Ratios
Leverage (power) Ratios

The extent to which a firm has been financed by debt.

- Debt-to-total-assets
- Debt-to-equity
- Long-term debt-to-equity
- Times-interest-earned
Basic Financial Ratios

Activity Ratios

Effective use of firm’s resources

Ratios

- Inventory turnover
- Fixed assets turnover
- Total assets turnover
- Accounts receivable turnover
- Average collection period
Basic Financial Ratios

Effectiveness shown by returns on sales & investment

Ratios

- Gross profit margin
- Operating profit margin
- Net profit margin
- Return on total assets (ROA)
Basic Financial Ratios

Effectiveness shown by returns on sales & investment

Ratios

Return on stockholders’ equity (ROE)
Earnings per share
Price-earnings ratio

Profitability Ratios (cont’d)
Basic Financial Ratios

Firm’s ability to maintain economic position

**Ratios**

- Sales
- Net income
- Earnings per share
- Dividends per share

Growth Ratios
Natural Environment Perspective
EU Countries Impose Curbs on Use of Chemicals

- Tough new laws start in 2008
- Use of some 30,000 chemicals need to be documented
- Cease using 1,500 of the most dangerous chemicals
- EU countries need to cut emissions
• Does the firm have sufficient working capital?
• Are capital budgeting procedures effective?
• Are dividend payout policies reasonable?
• Are the firm’s financial managers experienced & well trained?
Effective Financial Analysis Requires:
1. Analysis of how the ratios have changed over time
2. How the ratios compare to industry norms
3. How the ratios compare with key competitors
1. The production/operations functions of a business consist of all those activities that transform inputs into goods and services.

2. Production/operations management deals with inputs, transformations, and outputs that vary across industries and markets.

3. The production/operations activities often represent the largest part of an organization’s human and capital assets.
Production/Operations Functions

- Process
- Capacity
- Inventory
- Workforce
- Quality
<table>
<thead>
<tr>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Process</td>
<td>Process decisions concern the design of the physical production system. Specific decisions include choice of technology, facility layout, process flow analysis, facility location, line balancing, process control, and transportation analysis.</td>
</tr>
<tr>
<td>2. Capacity</td>
<td>Capacity decisions concern determination of optimal output levels for the organization. Specific decisions include forecasting, facilities planning, aggregate planning, scheduling, capacity planning, and queuing analysis.</td>
</tr>
<tr>
<td>3. Inventory</td>
<td>Inventory decisions involve managing the level of raw materials, work-in-process, and finished goods. Specific decisions include what to order, when to order, how much to order, and materials handling.</td>
</tr>
<tr>
<td>4. Workforce</td>
<td>Workforce decisions are concerned with managing the skilled, unskilled, clerical, and managerial employees. Specific decisions include job design, work measurement, job enrichment, work standards, and motivation techniques.</td>
</tr>
<tr>
<td>5. Quality</td>
<td>Quality decisions are aimed at ensuring that high-quality goods and services are produced. Specific decisions include quality control, sampling, testing, quality assurance, and cost control.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Country</th>
<th>Hourly Pay (per hour)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>$44.05</td>
</tr>
<tr>
<td>U.S.</td>
<td>$33.95</td>
</tr>
<tr>
<td>Canada</td>
<td>$29.17</td>
</tr>
<tr>
<td>Japan</td>
<td>$27.38</td>
</tr>
<tr>
<td>S. Korea</td>
<td>$15.82</td>
</tr>
<tr>
<td>Mexico</td>
<td>$3.50</td>
</tr>
</tbody>
</table>
Production/Operations

Facility design
Technology selection
Facility layout
Process flow analysis
Facility location
Line balancing
Process control
Production/Operations

Capacity

Forecasting
Facilities planning
Aggregate planning
Scheduling
Capacity planning
Queuing analysis
Production/Operations

Inventory

Raw materials
Work in process
Finished goods
Materials handling
Production/Operations

- Workforce
- Job design
- Work measurement
- Job enrichment
- Work standards
- Motivation techniques
Production/Operations

Quality control
Sampling
Testing
Quality assurance
Cost control
Production/Operations Audit

- Are suppliers of materials, parts, etc. reliable and reasonable?
- Are facilities, equipment, and machinery in good condition?
- Are inventory-control policies and procedures effective?
Production/Operations Audit

• Are quality-control policies & procedures effective?
• Are facilities, resources, and markets strategically located?
• Does the firm have technological competencies?
Many firms today do not conduct R&D, and yet many other companies depend on successful R&D activities for survival. Firms pursuing a product development strategy especially need to have a strong R&D orientation.
R&D in organizations can take two basic forms: (1) internal R&D, in which an organization operates its own R&D department, and/or (2) contract R&D, in which a firm hires independent researchers or independent agencies to develop specific products. Many companies use both approaches to develop new products. A widely used approach for obtaining outside R&D assistance is to pursue a joint venture with another firm.
Most firms have no choice but to continually develop new and improved products because of changing consumer needs and tastes, new technologies, shortened product life cycles, and increased domestic and foreign competition.
Research & Development

Research & Development Functions

- Development of new products before competitors
- Improving product quality
- Improving manufacturing processes to reduce costs
Research & Development

R&D Budgets

Financing as many projects as possible

Use percent-of-sales method

Budgeting relative to competitors

How many successful new products are needed
Research & Development Audit

• Are the R&D facilities adequate?
• If R&D is outsourced, is it cost-effective?
• Are the R&D personnel well qualified?
• Are R&D resources allocated effectively?
Research & Development Audit

• Are MIS and computer systems adequate?
• Is communication between R&D and other organizational units effective?
• Are present products technologically competitive?
Management Information Systems

Purpose

- Improve performance of an enterprise by improving the quality of managerial decisions
Importance of Information

1. Information ties all business functions together and provides the basis for all managerial decisions.

2. A management information system receives raw material from both the external and internal evaluation of an organization. It gathers data about marketing, finance, production, and personnel matters internally; and social, cultural, demographic, environmental, economic, political, government, legal, technological, and competitive factors externally. Data is integrated in ways needed to support managerial decision making.

3. Because organizations are becoming more complex, decentralized, and globally dispersed, the function of information systems is growing in importance.
Management Information Systems

- Information Systems
- CIO/CTO
- Security
- User-friendly
- E-commerce
Management Information Systems Audit

- Do managers use the information system to make decisions?
- Is there a CIO or Director of Information Systems position in the firm?
- Is data updated regularly?
Management Information Systems Audit

- Do managers from all functional areas contribute input to the information system?
- Are there effective passwords for entry into the firm’s information system?
- Are strategists of the firm familiar with the information systems of rival firms?
Management Information Systems Audit

- Is the information system user-friendly?
- Do all users understand the competitive advantages that information can provide?
- Are computer training workshops provided for users?
- Is the firm’s system being improved?
Porter describes the business of a firm as a value chain, in which total revenues minus total costs of all activities undertaken to develop and market a product or service yields value.

B. Value Chain Analysis refers to the process whereby a firm determines the costs associated with organizational activities from purchasing raw materials to manufacturing products to marketing those products.
VALUE CHAIN ANALYSIS

- All firms should use value-chain analysis to develop a core competence and develop this competence into a distinctive competence.

- A core competence is a value-chain activity that a firm performs especially well.

- When a core competence evolves into a major competitive advantage, it is called a distinctive competence. Figure 4-4 illustrates this process.

- Firms use benchmarking to determine whether its value chain activities are competitive compared to rivals. This entails measuring the costs of value chain activities across an industry to determine “best practices” among competing firms for the purpose of duplicating or improving upon those best practices.
Corporate Value Chain

Firm Infrastructure
(general management, accounting, finance, strategic planning)

Human Resource Management
(recruiting, training, development)

Technology Development
(R&D, product and process improvement)

Procurement
(purchasing of raw materials, machines, supplies)

Inbound Logistics
(raw materials handling and warehousing)

Operations
(machining, assembling, testing)

Outbound Logistics
(warehousing and distribution of finished product)

Marketing and Sales
(advertising, promotion, pricing, channel relations)

Service
(installation, repair, parts)

Profit Margin

Support Activities
Value Chain Analysis

- Examine each product line’s value chain
  - Core competencies & core deficiencies

- Examine the “linkages” within each product line’s value chain
  - Connections between the way one value activity is performed and the cost of performance of another activity

- Examine the synergies among the value chains of different product lines or business units
  - Economies of scope
1. A summary step in conducting an internal strategic-management audit is to construct an IFE Matrix. This strategy-formulation tool summarizes and evaluates the major strengths and weaknesses in the functional areas of a business, and it also provides a basis for identifying and evaluating relationships among these areas.

2. Intuitive judgments are required in developing an IFE Matrix, so the appearance of a scientific approach should not be interpreted to mean this is an all-powerful technique.
Steps in developing Internal Factor Evaluation (IFE) Matrix

1. List key internal factors as identified in the internal-audit process. Use a total from ten to twenty internal factors including both strengths and weaknesses.

2. Assign a weight ranging from 0 (not important) to 1.0 (very important). The weight indicates the relative importance of the factor to being successful in the firm’s industry. The sum of all the weights must equal 1.0. This is company base.

3. Assign a 1-4 rating to each factor to indicate whether that factor represents a major weakness (1), minor weakness (2), minor strength (3), or major strength (4). This is company base.

4. Multiply each factor’s weight by its rating to determine a weighted score for each variable.

5. Sum the weighted scores for each variable to determine the total weighted score for the organization.

6. Total weighted scores of below 2.5 indicate an internally weak organization.
### TABLE 4-9  A Sample Internal Factor Evaluation Matrix for a Retail Computer Store

<table>
<thead>
<tr>
<th>Key Internal Factors</th>
<th>Weight</th>
<th>Rating</th>
<th>Weighted Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Inventory turnover increased from 5.8 to 6.7</td>
<td>0.05</td>
<td>3</td>
<td>0.15</td>
</tr>
<tr>
<td>2. Average customer purchase increased from $97 to $128</td>
<td>0.07</td>
<td>4</td>
<td>0.28</td>
</tr>
<tr>
<td>3. Employee morale is excellent</td>
<td>0.10</td>
<td>3</td>
<td>0.30</td>
</tr>
<tr>
<td>4. In-store promotions resulted in 20 percent increase in sales</td>
<td>0.05</td>
<td>3</td>
<td>0.15</td>
</tr>
<tr>
<td>5. Newspaper advertising expenditures increased 10 percent</td>
<td>0.02</td>
<td>3</td>
<td>0.06</td>
</tr>
<tr>
<td>6. Revenues from repair/service segment of store up 16 percent</td>
<td>0.15</td>
<td>3</td>
<td>0.45</td>
</tr>
<tr>
<td>7. In-store technical support personnel have MIS college degrees</td>
<td>0.05</td>
<td>4</td>
<td>0.20</td>
</tr>
<tr>
<td>8. Store’s debt-to-total assets ratio declined to 34 percent</td>
<td>0.03</td>
<td>3</td>
<td>0.09</td>
</tr>
<tr>
<td>9. Revenues per employee up 19 percent</td>
<td>0.02</td>
<td>3</td>
<td>0.06</td>
</tr>
<tr>
<td>Weaknesses</td>
<td>Weight</td>
<td>Impact</td>
<td>Score</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td>--------</td>
<td>--------</td>
<td>-------</td>
</tr>
<tr>
<td>1. Revenues from software segment of store</td>
<td>0.10</td>
<td>2</td>
<td>0.20</td>
</tr>
<tr>
<td>2. Location of store negatively impacted by</td>
<td>0.15</td>
<td>2</td>
<td>0.30</td>
</tr>
<tr>
<td>new Highway 34</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Carpet and paint in store somewhat in</td>
<td>0.02</td>
<td>1</td>
<td>0.02</td>
</tr>
<tr>
<td>disrepair</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Bathroom in store needs refurbishing</td>
<td>0.02</td>
<td>1</td>
<td>0.02</td>
</tr>
<tr>
<td>5. Revenues from businesses down 8 percent</td>
<td>0.04</td>
<td>1</td>
<td>0.04</td>
</tr>
<tr>
<td>6. Store has no Web site</td>
<td>0.05</td>
<td>2</td>
<td>0.10</td>
</tr>
<tr>
<td>7. Supplier on-time delivery increased to 2.4</td>
<td>0.03</td>
<td>1</td>
<td>0.03</td>
</tr>
<tr>
<td>days</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Often customers have to wait to check out</td>
<td>0.05</td>
<td>1</td>
<td>0.05</td>
</tr>
<tr>
<td>Total</td>
<td>1.00</td>
<td></td>
<td>2.50</td>
</tr>
</tbody>
</table>
Review

- Explain why prioritizing the relative importance of strengths and weaknesses to include in an IFE Matrix is an important strategic-management activity.

  Prioritizing strengths and weaknesses can require substantial negotiation among managers because of the impact that factors included in the IFE Matrix will have on an organization’s strategies. Strategies will be devised to capitalize on the strengths and to improve the weaknesses. Managers from different departments and divisions of the organization will present supporting evidence for inclusion of factors that concern their particular unit of the firm. No more than 20 factors should be included in an IFE Matrix because too many strategies cannot be effectively pursued simultaneously.
Review

- Diagram a formal organizational chart that reflects the following positions: a president, two executive officers, four middle managers, and 18 lower-level managers. Now, diagram three overlapping and hypothetical information group structures. How can this information be helpful to a strategist in formulating and implementing strategy?

- Identifying the structure of informal groups can aid in formulating and implementing strategies because this information reveals communication patterns in the firm. This information could suggest individuals that are most important in influencing other persons to support established organizational objectives.
Do you think aggregate R&D expenditures for American firms will increase or decrease next year? Why?

R&D expenditures will likely increase because technological advancements are shortening the product life cycle in nearly all industries. Products of all types are becoming obsolete more quickly than ever before, thus requiring greater R&D expenditures to gain competitive advantages in the marketplace.
Review

- Explain how you would motivate managers and employees to implement a major new strategy.

There is a need to demonstrate clearly how the new strategy will benefit managers and employees of the organization. Articulate effectively why the new strategy is needed, given competitors’ strategies, products, and services. Strive to mobilize the firm’s cultural products to support the new strategy. Involve as many managers as possible in discussions about how to effectively implement the strategy. The process is more important than the plan.
Why do you think production/operations managers are often not directly involved in strategy-formulation activities? Why can this be a major organizational weakness?

There is an unfortunate stigma in many organizations that production/operations managers do not need to be involved in strategy-formulation decisions; they implement only strategies. This attitude can represent a major weakness in any organization because more than 80 percent of company assets are generally tied up in production/operations facilities, materials, plants, equipment, inventory, and machines. Production managers’ input into strategy-formulation activities can help assure that cost-effective strategies are selected for implementation.
Would you ever pay out dividends when your firm’s annual net profit is negative? Why? What effect could this have on a firm’s strategies?

For the following reasons, dividends are sometimes paid even when a firm’s annual net profit is negative:

1. Paying cash dividends is customary. Failure to do so could be thought of as a stigma/shame. A cash dividend is considered a signal about the future.

2. Dividends represent a sales point for investment bankers. Some institutions can only buy dividend-paying stocks.

3. Shareholders often demand dividends, even in companies with great opportunities for reinvesting all available funds.

4. A myth exists that paying dividends will result in a higher stock price.
Why do you believe cultural products affect all the functions of business?

Cultural products permeate every activity in an organization. People become attached to cultural products and often resist changes in rites, rituals, values, beliefs, and norms. Whether people work in marketing, manufacturing, personnel, or finance/accounting, they likely feel strongly about a firm’s culture.