

# The internal environment - THE STARTING POINT FOR STRATEGY FORMULATION

Case duration (Min):	45-60
Strategic Management (SM)	
Organizational Behaviour (OB)	
<b>The internal environment</b>	
<b>Organization culture</b>	

Worldwide

## Case summary:

There are two film clips associated with this case; the second focuses on corporate culture and can be used to supplement discussions.

Business success can be realized by focussing on the organization, rather than the external business environment. Aside from a need to be aware of the external environment, the manager must also know the internal business environment –managers need to understand the strengths and weaknesses of their organizations; they need to leverage resources. In order to do this they must know what they are and how they contribute to value creation and goal attainment.

## Learning objectives:

Understand the significance of the internal environment for strategy.  
Distinguish between the positioning and the resource-based perspectives.

## Case problem:

Why is it important for the strategic decision-makers to understand thoroughly their organisation's resources, capabilities and core competences?

## Company

Amyris Biotechnologies

Amyris Biotechnologies is translating the promise of synthetic biology into solutions for real-world problems. It is a renewable products company, devoted to creating a more sustainable world.

First, if you are taking a taught management course then consult with your tutor and ensure that the case has not been scheduled into a teaching class or tutorial. If it has not:

1. Play/ read the media associated with the case. You may need to access the Internet and enter a URL to locate any video clips.
2. Attempt the Case study questions.

Consider attempting the case study as a group exercise; you could form a study group with fellow students.

3. Check the suggested answers - remember these are suggestions only and there are often many possible answers.

Discuss questions and answers with other students.

4. If you feel your answer(s) were weak then consider reading the relevant suggested readings again (also see the case study suggested references).

## Title/ Media type

## URL/ Media description

Planning for the Market:

<http://ecorner.stanford.edu/authorMaterialInfo.html?mid=2025>

### Film

Start-up Amyris Biotechnologies didn't quite realize the potential of its assets or its market possibilities, says company CEO John Melo. The company made a choice. Rather than exploring the limits of the technology simply for technology's sake, they thought instead about exploring the needs of the marketplace. They first looked at the attributes of existing energy sources, and then investigated molecular alternatives that can mesh with current capabilities.

Defining Company Culture:

<http://ecorner.stanford.edu/authorMaterialInfo.html?mid=52>

### Film

Jeff Hawkins believes you have to be conscious and methodological about your company culture. The culture starts at the top and permeates to the bottom. The culture at palm is a product culture. High integrity is not just internal, but integrity with vendors, suppliers and customers. Hawkins points out that a lot of companies keep secrets but the transparency has been very good for Palm . A good, solid culture can help a company go through hard times.

## NOTES:

## Case study questions...

Action	Pre/During/After class
<b>1 THE INTERNAL ENVIRONMENT:</b> What do we mean by the internal environment and why might it be analysed when creating strategy?	During
<b>2 ANALYSIS OF THE INTERNAL ENVIRONMENT:</b> Discuss the role of analysis in strategy formulation and list several favoured ways to analyse the internal environment.	During
<b>3 THE STARTING POINT FOR STRATEGY FORMULATION:</b> With reference to the film clip and your wider reading/ experience, highlight and describe the two contrasting views about the starting point for strategy formulation. Evaluate whether corporate success depends upon positioning an organisation in a favourable market environment or on unique resources. Should strategies be developed by looking outward to the external business environment or should they be developed by looking inward to the organizations resources?	During
<b>4 ORGANISATIONAL RESOURCES</b> In the film clip, CEO John Melo discusses capabilities and what the organization can or could do. List and discuss resources and distinguish between resources and the capabilities of the organisation	During
<b>5 CAPABILITIES: IDENTIFICATION AND EVALUATION</b> Discuss how organizations might identify and evaluate key resources and capabilities	During

# Answers...

## INTERNAL ENVIRONMENT

Relates to the culture and climate of an organisation and to the prevailing atmosphere surrounding the organisation.

## CAPABILITIES

A company's distinctive competencies to do something well and efficiently

## DYNAMIC CAPABILITIES

the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments

## ORGANISATIONAL CLIMATE

Relating to the prevailing atmosphere surrounding the organisation, to the level of morale, and to the strength of feelings or belonging, care and goodwill among members. Organisational climate is based on the perceptions of members towards the organisation.

## ORGANISATIONAL STRUCTURE

Structure is the pattern of relationships among positions in the organisation and among members of the organisation. It defines tasks and responsibilities, work roles and relationships and channels of communication.

## ORGANISATIONAL SUB-SYSTEMS

The interrelated sub-systems of an organisation: tasks, technology, structure, people and management. These sub-systems need to be co-ordinated to ensure that the activities of an organisation are directed towards the achievement of aims and objectives.

## CONTEXTUAL RELATIVISM

Different actions are judged according to appropriate context

## Question/ Answer

### 1 THE INTERNAL ENVIRONMENT:

What do we mean by the internal environment and why might it be analysed when creating strategy?

**Internal environment** - relates to the culture and climate of an organisation and to the prevailing atmosphere surrounding the organisation. The internal environment includes organisational goals and values, resources and capabilities, structure and systems.

Strategy forms a link between the organisation and its external environment. Organisations must determine how they will deploy resources within their own environment in order to satisfy long-term goals.

### 2 ANALYSIS OF THE INTERNAL ENVIRONMENT:

Discuss the role of analysis in strategy formulation and list several favoured ways to analyse the internal environment.

Systematic analysis is a vital input into the strategy process, helping organisations to understand the issues, to identify, classify and understand the principle factors relevant to strategic decisions. Strategy is concerned with matching an organisation's resources and capabilities to the opportunities that arise in the external environment.

There are several favoured ways to analyse the internal environment such as the resource or skills audit, value chain analysis and comparative methods such as competitor intelligence, benchmarking and internal comparisons.

Analysis of the internal environment seeks to identify strengths and weaknesses whilst analysis of the external environment will search for opportunity and threat; collectively, this may be presented in the form of a SWOT analysis. Analysing the internal organisation (goals, values, resources, capabilities, structure and systems) and the industry environment (competitors, customers and suppliers) is the basic framework for strategy analysis, (Grant 2007:12) and strategy is the link between the organisation and its external environment.

### 3 THE STARTING POINT FOR STRATEGY FORMULATION:

With reference to the film clip and your wider reading/ experience, highlight and describe the two contrasting views about the starting point for strategy formulation. Evaluate whether corporate success depends upon positioning an organisation in a favourable market environment or on unique resources. Should strategies be developed by looking outward to the external business environment or should they be developed by looking inward to the organizations resources?

The focus on the external business environment is associated with the positioning perspective on strategy; the focus on organisational resources is associated with the resource-based perspectives on strategy i.e. there are two contrasting views about the starting point for strategy formulation; some start with the external whilst others the internal environment.

John Melo, in the video clip, stated that the company considered the external environment, the market and the needs of customers in order to determine what they should pay attention to/the products they should create. They also considered the actions of competitors. Throughout the video, he also considers the company's resources (and capabilities) particularly in the form of technologies. John noted comments from an investor, 'with this team and that technology there's got to be a market somewhere'. This approach assumes that an organisation can use superior resources and capabilities to modify the industry structure and or change the rules of the competitive game.

## SWOT ANALYSIS

summarises the key issues from the business environment and the strategic capability of an organisation both of which are most likely to impact upon strategy development

## RESOURCE-BASED PERSPECTIVE

a perspective that emphasises the internal environment and unique capabilities as the starting point for strategy development

## RESOURCES

inputs into the production process

## STRATEGIC FIT

the matching process between strategy and organizational structure

## ROUTINES

Routines are the organisationally specific 'ways we do things around here' which tend to persist over time and guide people's behaviour

## ORGANIZATIONAL ROUTINE

knowledge and experience embodied within an informal procedure

## 4 ORGANISATIONAL RESOURCES

In the film clip, CEO John Melo discusses capabilities and what the organization can or could do. List and discuss resources and distinguish between resources and the capabilities of the organisation

Resources are the productive assets owned by the organisation and capabilities are what the firm can do; individual resources do not confer competitive advantage, they must work together to create organisational capability

Resources may be categorised as tangible (financial or physical), intangible (technology, reputation and culture) and human (skills, know how, motivation)

Organisation routines (knowledge and experience embodied within an informal procedure) form the basis of most organisational capabilities

The internal environment is made up of the organizations resources, capabilities and competencies and reflects what the organization can do. Organizational resources include all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by an organization that enable it to conceive and implement strategies that improve its efficiency and effectiveness, (Barney 1991). Intangible resources are non-physical assets such as information, reputation and knowledge. Physical resources are the tangible resources owned by a company. Examples include land, buildings and plant. Physical resources are also known as tangible assets. Organizations also distinguish between transformed resources i.e. the resources that are treated, transformed or converted in a process, usually a mixture of materials, information and customers and transforming resources that act upon the transformed resources, usually classified as facilities (the buildings, equipment and plant of an operation) and staff (the people who operate, maintain and manage the operation), Slack, Chambers, and Johnston (2007).

Capabilities refer to what the organization can do, (Grant 2007), a company's distinctive competencies to do something well and efficiently, (Dibb, Simkin, Pride, and Ferrell 2006). Competences are the activities and processes through which an organisation deploys its resources effectively and a core competence refers to those capabilities fundamental to the organization's strategy and performance. Eustace (2003) discusses the internal resources used to add value and how the emphasis has shifted – from natural resources, machinery and financial capital, now regarded as commodities, to intangible resources as factors of competition.

When organization-specific assets are assembled in integrated clusters, spanning individuals and groups, so that they enable distinctive activities to be performed, these activities constitute organizational routines and processes (Teece, Pisano, and Shuen 1997). Routines are the organisationally-specific 'ways we do things around here' which tend to persist over time and guide people's behaviour. The concept of "organizational routine" helps us to understand capabilities. Organizational routines are regular and predictable patterns of activity which are made up of a sequence of coordinated actions by individuals (Grant 1991). A capability is, in essence, a routine, or a number of interacting routines. The organization itself is a vast network of routines. These include the sequence of routines which govern the passage of raw material and components through the production process, and top management routines which include routines for monitoring business unit performance, for capital budgeting, and for strategy formulation. The concept of organizational routines offers illuminating insights into the relationships between resources, capabilities, and competitive advantage. Routines are to the organization what skills are to the individual. Just as the individual's skills are carried out semi-automatically, without conscious coordination, so organizational routines involve a large component of tacit knowledge, which implies limits on the extent to which the organization's capabilities can be expressed. Just as individual skills are acquired through practice over time, so the skills of an organization are developed and sustained only through experience. The advantage of an established organization over a newcomer is primarily in the organizational routines that it has perfected over time. The Boston Consulting Group's "experience curve" represents an attempt to relate the experience of the organization to its performance. However, in industries where technological change is rapid, new organizations may possess an advantage over established ones through their potential for faster learning of new routines because they are less committed to old routines.

## 5 CAPABILITIES: IDENTIFICATION AND EVALUATION

Discuss how organizations might identify and evaluate key resources and capabilities

Key resources and capabilities are identified with reference to industry key success factors. If low-cost production determines why some organisations in an industry are more successful than others, then an advantage may be conferred by capabilities or access to raw materials which can reduce costs. The organisation needs to identify the resources and capabilities most important in conferring sustainable competitive advantage. The organisation must also evaluate the relative strength of its capabilities. To identify and appraise a company's capabilities, managers must look both inside and outside the organization. Benchmarking may be used to compare organisational performance with that of competitors. Appraising relative strength and strategic importance allows the organisation to highlight its strengths and weaknesses. Having identified resources and capabilities that are important and where the organisation is strong relative to competitors, the key task is to formulate strategy to ensure that these resources are deployed to the greatest effect. The organisation must identify how to exploit its strengths most effectively and must decide what to do about its key weaknesses, by either developing such areas or reducing vulnerabilities associated with them. Weaknesses may be converted into strengths though this is likely to be a long-term task.

We can appraise the strategic importance of resources and capabilities by determining the extent (how scarce and relevant the resources and capabilities are) and sustainability of competitive advantage established (durability, transfer ability and replica ability).

Companies can appraise at the resources and capabilities in order to guide strategy formulation by (one) identifying key resources and capabilities; (two) appraising resources and capabilities (which are more important), benchmarking and (three) developing strategy implications-determining how to exploit key strengths and manage weaknesses.

### Case study references

Cole, G A. and Kelly, P P. (2011) 'Management Theory and Practice', Ed. 7. Cengage EMEA.

Eustace, C. (2003) 'A new perspective on the knowledge value chain', Journal of Intellectual Capital, Volume 4 Number 4, p. 588 - 596.

Grant, R. (2007) 'Contemporary Strategy Analysis', Ed. 6. Blackwell Publishing.

Kelly, P P. (2009) 'International Business and Management', Cengage Learning EMEA.