

Strategic Management

Lecture Three: Internal Environment Scanning

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Introduction

In our last lecture- week two, we looked at different schools of thoughts that guide strategic management as well as the main steps in the process. In the current lecture, we will go deeper into scanning the internal environment, why it is important, how to go about it and the outcomes of the process.

Learning Outcomes

- Definition of internal environment scanning
- Point out the key components of internal environment
- Apply different tools for internal environmental scanning
- Appreciate the Importance of internal environmental scanning

Introduction

Opening Case

The time is early 2000s, and **Blockbuster** is the undisputed king of video rentals. With thousands of stores worldwide, the company dominates the home entertainment industry. However, beneath the surface, there are cracks in its internal environment. Blockbuster's leadership fails to recognize the importance of its internal strengths, such as its vast retail network and brand recognition, while ignoring weaknesses like its reliance on late fees and lack of innovation. Meanwhile, a small startup called **Netflix** emerges, leveraging technology and a customer-centric model. Blockbuster's inability to scan its internal environment effectively—its resources, capabilities, and culture—leads to its downfall. By the time Blockbuster realizes the need to adapt, it's too late. Netflix, on the other hand, continuously scans its internal environment, aligning its strengths with external opportunities, and becomes a global streaming giant.

Pause and Reflect

- What were the key internal strengths Blockbuster had, that it failed to leverage effectively?

- Why do you think Blockbuster’s leadership overlooked the importance of internal environment scanning?
- How did Blockbuster’s internal culture contribute to its downfall?
- What could Blockbuster have done differently to foster a culture of innovation and adaptability?
- Blockbuster had significant resources (e.g., stores, customer base). Why do you think it couldn’t reallocate these resources to compete with Netflix?
- How can organizations ensure their resources are aligned with emerging opportunities?
- What role did leadership play in Blockbuster’s inability to adapt to changing market dynamics?
- Netflix focused on customer convenience and technology. How did this highlight Blockbuster’s internal weaknesses?
- What lessons can modern organizations learn from Blockbuster’s failure to adapt?
- What does Blockbuster’s story teach us about the importance of aligning internal capabilities with external trends?

Definition

Internal environment scanning is the process of taking a closer look at everything inside a firm so as to understand its strengths and weaknesses. The aspects that are looked at include:

- **Culture:** Values, norms, beliefs, and behaviors that shape decision-making
- **Resources:** Tangible (financial, physical) and intangible (brand, intellectual property)
- **Capabilities:** Organizational skills, processes, and routines
- **Structure:** Organizational hierarchy, communication flows, and decision-making processes

When we talk about **strengths**, it refers to what the firm is able to do so well while for **weaknesses** they refer to areas where the firm needs improvement. Understanding these two areas is important for a firm as it helps them to identify what needs to be worked on to remain competitive.

An example: Bakery

Assume you are running a bakery; to scan your internal environment, you would ask the following questions:

- **Resources:** Do I have enough ovens, spaces, ingredients, and skilled bakers?
- **Capabilities:** Are we really good at making custom cakes?
- **Culture:** Do my employees work well together, and are they motivated?
- **Weaknesses:** Are we slow at fulfilling customer orders during peak hours?

By answering these questions, you might be able to identify areas that need to be fixed before it is too late as well as promoting those which you do well.


Tools and Frameworks for Internal Environment Scanning

1. SWOT (Strengths, Weakness, Opportunity, Threat) Analysis

Table 1

SWOT Analysis

SWOT ANALYSIS TEMPLATE	
<p>STRENGTHS</p> <ul style="list-style-type: none"> <input type="checkbox"/> What do we do well? <input type="checkbox"/> What do our customers say we do well? <input type="checkbox"/> What is our unique selling proposition? <input type="checkbox"/> Do we have strong brand awareness? Customer loyalty? <input type="checkbox"/> Supplier, distributor, influencer relationships? <input type="checkbox"/> What proprietary or unique assets do we have? <input type="checkbox"/> What skills do we have that our competitors don't? <input type="checkbox"/> Strong capital? <input type="checkbox"/> Do our profit margins compare to industry benchmarks? 	<p>WEAKNESSES</p> <ul style="list-style-type: none"> <input type="checkbox"/> Where can we improve? <input type="checkbox"/> What do our customers frequently complain about? <input type="checkbox"/> Which objections are hard to address? <input type="checkbox"/> Are we new or not well known? <input type="checkbox"/> Do we have any limitations in distribution? <input type="checkbox"/> Are our resources and equipment outdated or old? <input type="checkbox"/> Are we lacking in staff, skills, or training? <input type="checkbox"/> Do we suffer from cash flow problems? Debt? <input type="checkbox"/> Are our profit margins smaller than industry benchmarks?
<p>OPPORTUNITIES</p> <ul style="list-style-type: none"> <input type="checkbox"/> Do our competitors have any weaknesses we could benefit from? <input type="checkbox"/> Target market growing or shifting in our favor? <input type="checkbox"/> Is there an untapped pain point or niche market? <input type="checkbox"/> Are there upcoming events we could benefit from? <input type="checkbox"/> Are there geographic expansion opportunities? <input type="checkbox"/> Are there potential new sources of financing? <input type="checkbox"/> Industry or economic trends that could benefit us? <input type="checkbox"/> Social or political trends that could benefit us? <input type="checkbox"/> Any new technology that could benefit us? 	<p>THREATS</p> <ul style="list-style-type: none"> <input type="checkbox"/> New competitors or expansion in existing competitors? <input type="checkbox"/> Is our target market shrinking or shifting? <input type="checkbox"/> Could any indirect competitors become direct competitors? <input type="checkbox"/> Industry or economic trends that could work against us? <input type="checkbox"/> Social or political trends that could work against us? <input type="checkbox"/> Any new technology that could work against us?



Source: Shewan (2024)

- By answering the questions in each of the quadrants as shown in **table 1**, a business can identify its strengths, weaknesses, opportunities, and threats.
- By addressing each quadrant effectively, firms can turn strengths into competitive advantages, minimize weaknesses, seize opportunities, and protect against threats.
- The **table 2** shows possible actions that a firm can take for each of the quadrant

Table 2

Action for SWOT Quadrant

Quadrant	Action
Strengths	Leverage, promote, benchmark, invest
Weakness	Improve, mitigate, outsource, monitor
Opportunities	Pursue, align, innovate, collaborate
Threats	Prepare, monitor, neutralize, diversify, adapt

2. VRIO Framework

- This framework is credited by Barney in his work for firm resources and sustained competitive advantage (Barney, 1995).
- He was addressing the qualities that a resource must possess to be a source of sustainable competitive advantage
- The framework evaluates their potential to create and sustain a competitive advantage
- He proposed four attributes that are key

Valuable:

- Does the resource or the capability add value to the firm enabling it to take advantage of the opportunities and neutralizing the possible threats.
- A resource or capability is considered valuable if it helps the firm become more efficient, effective and competitive
- If they do not add value, the firm need to eliminate or drop them
- A good example of a valuable resource is a strong brand reputation, this can lead to customer loyalty, market differentiation, credibility among others

Rarity

- Is the resource or capability possessed by many others?
- The resource must be rare for it to give a firm an edge
- If it is possessed by so many other firms it may lose the value as it will no longer be a differentiator

- Rarity increases the chance of a resource giving the firm a competitive advantage
- The firm should focus on developing rare capabilities
- A patented technology could be a rare resource that gives your company an edge if other firms do not have access to it.

Imitability

- Is the resource or capability difficult and costly for others/competitors to duplicate or copy?
- The answer should be a stounding yes
- The yes would mean that it is extremely impossible or unlikely for your competitors to copy what is giving you an edge in the industry
- Factors such as patents, complex and opaque processes, historical conditions make a resource difficult to imitate
- A firm must protect its valuable and rare resources through option such as trademark, trade secret, service mark, and patenting
- The trade secret of Coca-cola that they have held on for years is valuable, rare and difficult to copy and give them a competitive advantage

Organization

- Is the firm organized and ready to capture the value of this rare and difficult to imitate resource?
- Even where the resource or capability meet of the other conditions and the firm is not ready to exploit them, competitive advantage may not be attained
- Organization talks about leadership, structures, processes, incentives, and systems

3. Value Chain Analysis

- This is a strategic tool that was introduced by Michael Porter in his work on competitive advantage and creating superior performance
- The framework breakdown the primary activities of a firm and support activities
- The goal is to understand how each of the activities contributes to the value delivered to customers and how it adds to the competitive advantage of the firm
- It's a powerful tool for understanding how an organization creates value and where it can improve
- The tool is applicable to all sort of businesses

Primary Activities

- The primary activities represent the core activities involved in production, marketing, and delivering the product or service.
- They include
 - Inbound logistics- all those activities associated with receiving, storing, and distributing inputs/raw materials
 - Operations- those activities that transform raw materials into finished goods e.g. manufacturing or assembling
 - Outbound logistics- activities relating to storing and distributing finished goods
 - Marketing and sales- activities relating to promoting and selling the products
 - Service- activities relating to enhancing the product's value after it has been sold (after sales service)

Support Services

- These are the activities that enables the primary activities to function as effectively and efficiently as possible
- They include;
 - Procurement: The sourcing and purchasing of raw materials from the suppliers
 - Human resource management: activities around hiring, training, and retaining workers
 - Technology development: these relates to research and development as well as innovation
 - Firm's infrastructure: the activities that support firm's entire value chain such as finance, legal, and planning.

How to conduct Value chain analysis

- After listing the activities and categorizing them as either primary or support activities
- Determine the cost associated with each activity
- Assess how much value each add to the firm
- Identify where the cost can be reduced without affecting the value
- Identify where the value can be enhanced for instance turnaround time

- Compare your value chain with your competitors to identify areas of improvement
- Focus on the activities that provide the most value or cost savings
- Have outsourcing as an option for non-core activities
- Invest in activities that differentiate you from the others

Benefits of internal environmental scanning

- It offers a comprehensive view of the business and how all parts work together for the overall success of the firm
- It prepares and allow a firm to build resilience as it adapts to internal and external changes
- It helps the firm to identify areas of innovation that can drive value creation
- Improves profitability by pointing out areas where a firm can cut costs
- It enhances customer satisfaction and experience through focusing on activities that add value to customers
- It helps a firm mitigates or prepare to deal with identified internal risks
- It helps in aligning internal capabilities with external opportunities
- It helps build a culture of continuous improvement through regular assessments
- It improves firm' efficiency in its operations
- Supports the firm in making strategic decisions through provision of data-driven insights
- Optimize resource utilization in the firm.

Topic Recap

What is Internal Environment Scanning?

- A deep dive into your business to find strengths and weaknesses.
- Like a health check for your company!

What to Look At

- Resources: Money, talent, tools.
- Capabilities: Skills, processes.
- Culture: Teamwork, values.
- Structure: Decision-making, communication.

Tools to Use

- SWOT Analysis: Find strengths, weaknesses, opportunities, threats.

- VRIO Framework: Check if resources are valuable, rare, hard to copy, and well-organized.
- Value Chain Analysis: See where you create value and cut costs.

Why It matters

- Saves costs and boosts efficiency.
- Helps make smarter decisions.
- Keeps you ahead of competitors.
- Prepares you for challenges and opportunities.

In the end. Know your business inside out to stay strong and grow!

Next topic

- We will talk about external environmental scanning, what it is, what it comprises of and how to go about it.

References

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