

standing could be a competitive advantage for an organisation. Competitive advantage is relative rather than absolute and it is to be measured and compared with respect to other rivals in an industry. •

With rising competitiveness in industry, mainly owing to the liberalisation and reform process, the usage of the term 'competitive advantage' has become more pronounced. The term 'competitive advantage' is more popular since it has been used as an important concept by the proponents of the positioning school of thought in strategy. For instance, Michael Porter uses competitive advantage as one of the important concepts in his seminal contributions to the area of competitive strategy. Here, we take the position as described above. Strategic advantage is a broader concept while competitive advantage is one of its subset.

The obvious purpose of gaining strategic advantage is to empower organisations to realise their strategic intent.

## 4.2 ORGANISATIONAL CAPABILITY FACTORS — ②

Capabilities are most often developed in specific functional areas such as marketing or operations or in a part of a functional area such as distribution or research and development. It is also feasible to measure and compare capabilities in functional areas. Thus, a company could be considered as inherently strong in marketing owing to a competence in distribution skills. Or a company could be competitive in operations owing to superior research and development infrastructure.

*Organisational capability factors (or, simply, capability factors) are the strategic strengths and weaknesses existing in different functional areas within an organisation, which are of crucial importance to strategy formulation and implementation.* Other terms synonymous to organisational capability factors are: strategic factors, strategic advantage factors, corporate competence factors, etc.

Different types of capability factors exist within the internal environment of an organisation. For the purpose of explanation, authors divide them into different functional areas. In this book, we follow an approach of dividing the organisation into six largely accepted and commonly understood functional areas. These are: finance, marketing, operations, personnel, information and general management areas.

You will note that we are designating information and general management as functional areas within the organisation though these are not *per se* considered as such. These are rather overarching functions, concerned with the integration and coordination of activities, covering the other four functional areas. But here we consider them as functional areas to draw attention to the fact that these two areas too merit consideration and possess embedded capabilities that have the potential to provide strategic advantage to organisations. It should be remembered, however, that a segregation of an organisation into our functional areas is arbitrary and organisations need to choose a basis for classification that would be the most relevant to their structure, functions and activities. You would need to keep a particular scheme of segregation of the organisation into functional areas when you do a case analysis. For instance, a service organisation like a corporate hospital may have, besides different specialties, functions such as a laboratory, radiology unit, therapy, purchase and stores, personnel, housekeeping and accounting. The organisation of such a type would have functional areas based on its typical activities.

We now describe capability factors in the six functional areas of finance, marketing, operations, personnel, information and general management. For each capability factor, we first define that factor, point out some of the important elements that support capability in an area, give a few illustrations of typical strengths, and lastly, provide a few examples from real-life business situations to help enhance your understanding.

### Financial Capability — ①

Financial capability factors relate to the availability, usages and management of funds and all allied aspects that have a bearing on an organisation's capacity and ability to implement its strategies.



Some of the important factors which influence the financial capability of any organisation are as follows:

1. *Factors related to sources of funds* Capital structure, procurement of capital, controllership, financing pattern, working capital availability, borrowings, capital and credit availability, reserves and surplus, and relationship with lenders, banks and financial institutions.
2. *Factors related to usage of funds* Capital investment, fixed asset acquisition, current assets, loans and advances, dividend distribution and relationship with shareholders.
3. *Factors related to management of funds* Financial, accounting and budgeting systems; management control system, state of financial health, cash, inflation, credit, return and risk management; cost reduction and control and tax planning and advantages.

Based on the above factors, a number of strengths and weaknesses can be found that affect the financial capability of an organisation. Exhibit 4.4 provides a few illustrations of strengths that support financial capability. The absence or unavailability of these factors leads to the occurrence of weaknesses. For instance, access to financial resources is a strength, while inaccessibility to them is a weakness.

#### Exhibit 4.4 Typical strengths that support financial capability

- ✓ Access to financial resources
  - Amicable relationship with financial institutions
- ✓ High level of credit-worthiness
  - Efficient capital budgeting system
  - Low cost of capital as compared to competitors
  - High level of shareholder's confidence
  - Effective management control system
  - Tax benefits due to various government policies.

The examples below show how strengths and weaknesses affect the financial capability of organisations.

- Gujarat Ambuja accumulated high savings from higher cement prices and sales volume growth over the past few years. It did not make big moves for acquisitions for quite some time. Holcim of Switzerland, the world's second largest cement producer, took over equity in Gujarat Ambuja. This helped develop considerable financial strength to raise finances—whether equity or debt—at attractive rates, globally.
- The Murugappa family business group, of the TI Cycles fame, has been respected for its sound financial management based on a mix of conservatism, reliability in financial dealings and ability to raise finances for its various companies.
- Mahindra & Mahindra has followed a policy of being a low asset company, accumulating a high surplus of nearly Rs. 2000 crore, with nearly half of it on its balance sheet. It also maintains a low debt-equity ratio, raising its borrowing capacity substantially.
- Reliance Industries can afford to have a Rs. 61,700 crore (\$ 13.5 billion) capital expenditure plan based on its superior ability to raise finances, easy access to financial resources and an efficient capital budgeting system.
- Moser Baer considers its need to scale up operations and evolve internal controls to meet its exponential growth resulting in a need to constantly expand capacities requiring continuing capital investment as a weakness.

#### Marketing Capability

Marketing capability factors relate to the pricing, promotion and distribution of products or services, and all the allied aspects that have a bearing on an organisation's capacity and ability to implement its strategies.



Some of the important factors which influence the marketing capability of an organisation are as follows:

1. Product related factors Variety, differentiation, mix quality, positioning, packaging etc.
2. Price-related factors Pricing objectives, policies, changes, protection, advantages, etc.
3. Place-related factors Distribution, transportation and logistics, marketing channels, marketing intermediaries, etc.
4. Promotion-related factors Promotional tools, sales promotion, advertising public relations, etc.
5. Integrative and systemic factors Marketing mix, market standing, company image, marketing organisation, marketing system, marketing management information system, etc.

Some of the typical strengths leading to marketing capability are given in Exhibit 4.5.

**Exhibit 4.5** Typical strengths that support marketing capability

- Wide variety of products
- Better quality of products
- Sharply-focussed positioning
- Low prices as compared to those of similar products in the market
- Price protection due to government policy
- High quality customer service
- Effective distribution system
- Effective sales promotion
- High-profile advertising
- Favourable company and product image
- Effective marketing management information system

Here are a few real-life illustrations of organisations that possess either strengths or weaknesses which determine their marketing capability.

- Parle is a company well recognised by Indian consumers for its strong imagery and appeal. Several of its biscuits and confectionary products are market leaders in their category. Parle enjoys a high market share with its biscuit brands such as Parle-G, Monaco and Krackjack and confectionary brands such as Kismi, Mangobite, Melody and Poppins.
- With 43 branches, over 150 area offices and more than 10000 trade partners, apart from two factories, LG India can take justified pride in its extensive distribution network. Such a network provides it a significant marketing strength in the competitive FMCG industry it operates in.
- Pfizer India has the distinction of having brands that have achieved top rank in the pharmaceuticals industry. For instance, Becosules and Corex—two of its brands ranked at the top among all industry brands for a few years—gave Pfizer recognition for its marketing strength.
- Real Value relies on an effective management of perceptions in its marketing communications as a part of its strength in advertising to sell its products. It employed this in turning the product concept of fire extinguisher from being perceived as an industrial equipment to a household necessity to be used as a portable fire suppressant. It achieved this through stoking the fear of fire through negative advertising.
- Several studies on small scale industry point out the lacunae of ineffective marketing as one of the major causes of industrial sickness. Governments can help small companies to develop marketing strengths as in the case with himachalproducts.com. Himachal Pradesh local products such as Kangra miniature paintings, Chamba *rumaals*, Lahauli socks, Kullu and Pashmina shawls etc. can now be bought on the Internet.



## Operations Capability (28)

Operations capability factors relate to the production of products or services, use of material resources and all allied aspects that have a bearing on an organisation's capacity and ability to implement its strategies.

Some of the important factors which influence the operations capability of an organisation are as follows:

1. Factors related to the production system Capacity, location, layout, product or service design, work systems, degree of automation, extent of vertical integration, etc.
2. Factors related to the operations and control system Aggregate production planning, material supply, inventory, cost and quality control, maintenance systems and procedures, etc.
3. Factors related to the R & D system Personnel facilities, product development, patent rights, level of technology used, technical collaboration and support, etc.

Some typical strengths, supporting the development of operations capability, are given in Exhibit 4.6.

### Exhibit 4.6 Typical strengths that support operations capability

- High level of capacity utilisation
- ✓ Favourable plant location
- High degree of vertical integration
- Reliable sources of supply
- Effective control of operational costs
- Existence of good inventory control system
- Availability of high calibre R & D personnel
- Technical collaboration with reputed firms abroad

Given below are a few illustrations of how the existence of strengths or weaknesses can affect the operations capability of an organisation.

- JK Tyres pioneered radial tyres in India, but has not been able to capitalise on it. Technologically, its competitors such as Bridgestone, who have access to latest tread patterns, have proved to be better. JK Tyres faces a strategic disadvantage owing to its lower operations capability.
- The Mumbai Tiffin Box Suppliers Association is a streamlined 120-year-old organisation, with 4,500 semi-literate members providing quality door-to-door service to a large and loyal customer base. These members called *dabbawalas* collect and deliver 175,000 packages within hours. The entire system depends on teamwork and meticulous timing.
- Coimbatore-based, Shanthi Gears is a reputed company in the industrial gears business. Its operations strengths lie in its modern facilities that include a foundry, forge shop, fabrication and heat treatment equipment. It can produce customised power transmission products for specialised applications, making it a market leader offering stiff competition to multinational companies.
- The capability to absorb imported technology is a great strength, as seen in the case of Lakshmi Machine Works. It is one of the five companies in the world to make the entire range of textile spinning machinery and the largest such company in India. It had a collaboration with the Rieter Machine Works of Switzerland from which it got the latest technology. The technology absorption capacity has played an important role in the company's success as compared to its other competitors like Mafatlal Engineering Company and Texmaco.

## Personnel Capability (5)

Personnel capability factors relate to the existence and use of human resources and skills, and all allied aspects that have a bearing on an organisation's capacity and ability to implement its strategies.



- Some of the important factors which influence the personnel capability of an organisation are as follows:
1. Factors related to the personnel system Systems for manpower planning, selection, development, compensation, communication and appraisal, position of the personnel department within the organisation, procedures and standards, etc.
  2. Factors related to organisational and employee characteristics Corporate image, quality of managers, staff and workers perception about and image of the organisation as an employer, availability of developmental opportunities for employees, working conditions, etc.
  3. Factors related to industrial relations Union-management relationship, collective bargaining, safety, welfare and security, employee satisfaction and morale, etc.
- Some of the typical strengths supporting the development of personnel capability are provided in Exhibit 4.7.

**Exhibit 4.7** Typical strengths that support personnel capability

- Genuine concern for human resources management and development
- ✓ Efficient and effective personnel systems
- The organisation perceived as a fair and model employer
- Excellent training opportunities and facilities
- Congenial working environment
- Highly satisfied and motivated workforce
- High level of organisational loyalty
- Low level of absenteeism
- Safe and salutary working conditions

Here are a few illustrations of how strengths and weaknesses affect the personnel capability of organisations.

- IT companies face a real problem attracting and retaining skilled employees. Covansys attempts to build a human resource-friendly company environment through various measures. Its personnel strengths arise from its efforts to implement fun-at-work schemes. Culture for growth, pioneered by founder-Chairman, Raj Vattikutti envisages employee empowerment in decisions related to their work and also their performance appraisal.
- The banking industry in India is highly competitive and it has been increasingly difficult for banks to attract and retain good employees. Attrition rates of staff are high. At HSBC India, the four Cs plan-communication, customer centricity, competitive benchmarking and collaboration helps to create a conducive human resource environment. Rewards come in the form of a variable bonus scheme, incentive schemes and stock options. Career progression is ensured through a career planning scheme.
- DRS Group, a Hyderabad-based, third-party logistics company realised the value of human resources in the fast-growing organised retail industry in India. To develop its personnel strength, it set up an institute to train prospective employees in a variety of jobs at the lower end in the logistics industry and recruit them for the various divisions of the company.
- Metal Box India Ltd. was at one time, a highly profitable company, but owing to various problems, it had to shut down several plants across the country. The root cause of the problem was the severe cash crunch which was largely the result of the high-cost structure owing to wage bills. This resulted in a serious dent in the personnel capability of the company. Besides, a large and militant workforce was a weakness which the company could not overcome.



## Information Management Capability

Information management capability factors relate to the design and management of the flow of information from outside into, and within an organisation for the purpose of decision-making and all allied aspects that have a bearing on an organisation's capacity and ability to implement its strategies.

Some of the important factors which influence the information capability of an organisation are as follows:

1. *Factors related to acquisition and retention of information* Sources, quantity, quality and timeliness of information, retention capacity and security of information.
2. *Factors related to processing and synthesis of information* Database management, computer systems, software capability and ability to synthesise information.
3. *Factors related to retrieval and usage of information* Availability and appropriateness of information formats, and capacity to assimilate and use information.
4. *Factors related to transmission and dissemination* Speed, scope, width and depth of coverage of information, and a willingness to accept information.
5. *Integrative, systemic and supportive factors* Availability of IT infrastructure, its relevance and compatibility to organisational needs, upgradation of facilities, willingness to invest in state-of-the-art systems, availability of computer professionals and top management support.

Exhibit 4.8 provides a few illustrations of strengths that support the information management capability of an organisation.

### Exhibit 4.8 Typical strengths that support information management capability

- Ease and convenience of access to information sources
- Widespread use of computerised information system
- Availability and operability of high-tech equipment
- Positive attitude to sharing and disseminating information
- Wide coverage and networking of computer systems
- Presence of foolproof information security systems
- Presence of buyers and suppliers conversant with IT applications
- Top management understanding of, and support to, IT and its application within organisation

Here are a few illustrations showing how strengths and weaknesses affect the information capability of organisations.

- Banking is a highly-integrated business. With a wide geographical dispersal of branches, the need for computerisation and networking is crucial. The figures for State Bank of India are quite revealing: 58 per cent of business and 75 per cent of profits for 1998-99 came from 1672 computerised branches out of a total number of 8963 branches. Obviously, computerisation and networking add to a bank's information capability and enhance its strategic advantage.
- NIIT, a major player in the IT industry, has been able to create a significant information capability for itself by networking its widely-dispersed offices in several countries around the world. Members of their senior staff are able to communicate with the help of the Internet, leading to effective and coordinated decision-making and action.
- An illustration of how information capability is used to develop the product is available in the case of Hero Motors. The foundation for a sound product management is an extensive communication system, in the form of an information chain, interlinking various functional areas such as marketing, operations, purchase, materials management and services.
- Web.Com (India) is a reputed software development company based at Guwahati. Its high information management capability is based on its PIPS (Project Implementation Planning Study) system that is



based on a client-centred process. Through this process, the company is able to determine the exact scope and nature of the implementation of a software solution that is a cost-effective amalgam of packaged software plus a client-specific solution.

- GE Money is one of the financial services providers to consumers and retailers in India, offering a range of financial products. Strong operations are backed by the latest information technology to support the product lines. Its customer relationship management programme is claimed to be among the most successful customer retention programs in India and a single database housing nearly 2.4 million customer accounts, latest technology and centralised operations ensure high service standards in the industry.

## General Management Capability (6)

General management capability relates to the integration, coordination and direction of the functional capabilities towards common goals and all allied aspects that have a bearing on an organisation's capacity and ability to implement its strategies.

Some of the important factors which influence the general management capability of an organisation are as follows:

1. *Factors related to the general management system* Strategic management system, processes related to setting strategic intent, strategy formulation and implementation machinery, strategy evaluation system, management information system, corporate planning system, rewards and incentives system for top managers, etc.
2. *Factors related to general managers* Orientation, risk-propensity, values, norms, personal goals, competence, capacity for work, track record, balance of functional experience, etc.
3. *Factors related to external relationships* Influence on and rapport with the government, regulatory agencies and financial institutions; public relations, sense of social responsibility, philanthropy, public image as corporate citizen, etc.
4. *Factors related to organisational climate* Organisational culture, use of power, political processes, balance of vested interests, introduction, acceptance and management of change, nature of organisational structure and controls, etc.

A few typical strengths which influence the general management capability of an organisation are given in Exhibit 4.9.

### Exhibit 4.9 Typical strengths that support general management capability

- Effective system for corporate planning
- Control, reward and incentive system for top managers geared to the achievement of objectives
- Entrepreneurial orientation and high propensity for risk-taking
- Good rapport with the government and bureaucracy
- Favourable corporate image
- Commonly being perceived as a good organisation to work for
- Development-oriented organisational culture
- Political processes used for consensus-building in organisational interest
- Effective management of organisational change

We provide here a few illustrations of organisations which possess either strengths or weaknesses which affect their general management capability.

- Infosys is not India's biggest IT company (it's Tata Consultancy Services) nor is it having the widest market segment coverage (Wipro Technologies does). Yet, it evokes awe and respect owing to the middle-class success story of its legendary founders and their wealth sharing philosophy making it a



global leader in the IT industry. It created an exemplary culture of transparency that is a hallmark of its general management, making it the best company to work for several times in annual magazine surveys like that of *Business Today*.

- When a new bank enters the banking industry, it does not have a past track record to justify asking the general public to invest in it. Yes Bank leveraged its entry on the basis of the record of its top management instead. That belief was quickly proven true as the bank was able to target niche segments and using high technology to keep fixed costs under control, was able to become operationally profitable after writing off pre-operative expenses in a short time. Thus, the quality of management proves to be a big strength in the case of Yes Bank.
- Shri Mahila Griha Udyog's (MGU) Lijjat Papad is a household name in India. A success story of the cooperative sector, MGU's impressive sales of Rs 300 crore is backed by its general management capability. This capability arises from a decentralised top structure, guided by the Gandhian principle of Sarvodaya, where there are 21 managing members, all women, having consensus-based decision-making and veto power.
- The *Malayalam Manorama* is India's largest selling newspaper. Its roots go back to over a century to K.V. Mappilai who founded the company in 1888. Behind the success of the company is the unified, decisive and unchallenged leadership of one family, whose members have had a significant influence on the political and social life in Kerala. The stability provided by the family members and the favourable public image are great strengths for the enterprise. The newspaper is considered to be the best edited and the most professionally produced newspaper in Malayalam.

Till here, in this section, we have observed the manner in which the strengths and weaknesses in different functional areas have an impact on the capability of an organisation. It should be remembered, however, that dividing the organisation into different functional areas is done only for ease of understanding and analysis. In reality, capability factors within a functional area do not exist in isolation. Individual capability factors within a functional area, and across different areas, collide and combine in the internal environment in complex ways, generating the overall organisational capability. Considering an example of intra-functional area interaction, the distribution capability of an organisation can only be utilised effectively if other marketing capability factors such as product, pricing and promotion support its usage. Across different functional areas, if an organisation possesses a high level of operations capability, it can be used effectively only if other areas, such as marketing, support its usage. In such a manner, organisational capability is the net result of the different types of interaction taking place within the organisation.

At any given time, the internal environment of an organisational is virtually a melting pot of forces and influences. Strategists need to adopt some approach to deal with the complexity, and to comprehend, segregate, analyse and synthesise the various factors to determine the organisational capability. All this can be done through the process of organisational appraisal.

#### 4.3 CONSIDERATIONS IN ORGANISATIONAL APPRAISAL

*The purpose of organisational appraisal (also referred to as internal appraisal, internal analysis, organisational analysis, company analysis, etc.) is to determine the organisational capability in terms of strengths and weaknesses that lie in the different functional areas. This is necessary since the strengths and weaknesses have to be matched with the environmental opportunities and threats for strategy formulation to take place. In organisational appraisal, the various forces and influences operating within the internal environment of an organisation have to be analysed. These forces and influences result from the organisational resources, behaviour, synergistic effects and the competencies of the organisation. Organisational capability is dependent on these forces and influences. By appraising the organisation, the strategists have to develop an*