

Strategic Management and Business Policy I

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Course & Class Information

Course: Strategic Management and Business Policy I

Program: Bachelor's Program

Credits: 4 ECTS

Mode: Onsite / Blended

Class 5: Internal Environment Analysis and the Role of Business Policy

Instructor: Dr. Leul Girma

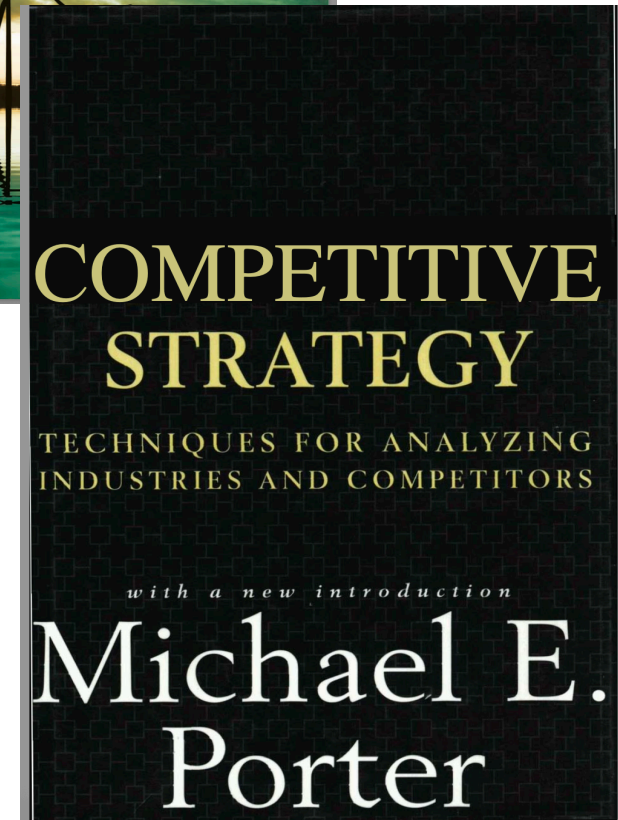
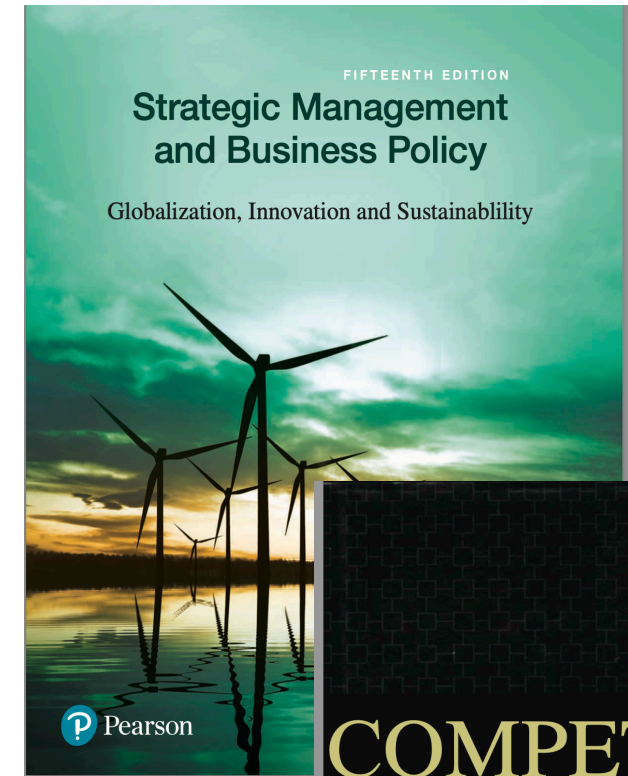
Main Teaching & Learning Materials

Books

- Mastering Strategic Management.
- Strategic Management and Business Policy

Business Policy resources

- Company annual reports
- Public corporate governance codes and policy guidelines
- Instructor-provided case materials



Objective and Learning Outcomes

Objective:

To develop students' understanding of the internal environment and business policy as key components of strategic management, and to examine how organizational resources, capabilities, governance, and policy frameworks support strategic decision-making and effective strategy implementation.

By the end of this class, students will be able to:

- Describe the role of the internal environment in strategic management.
- Distinguish between resources, capabilities, and core organizational competencies.
- Describe the role of corporate governance in supporting strategic direction.
- Recognizes the relationship between internal environment, business policy, and organizational performance.

Internal Environment

What is the Internal Environment?

The internal environment refers to the **set of organizational resources, capabilities, competencies, structure, and management systems** that influence an organization's ability to formulate and implement strategies (Wheelen et al., 2018; Johnson et al., 2020).

Key Characteristics:

- It consists of factors that are under the direct control of the organization
- It determines the strengths and weaknesses of the organization
- It influences the organization's ability to achieve strategic objectives
- It plays a critical role in creating and sustaining competitive advantage

Internal Resources

Internal resources are the specific assets and inputs that an organization possesses and uses to support its operations and strategic activities (Barney, 1991; Grant, 2019).

Core Attributes:

- Represent the assets available within the organization
- Support operational and strategic activities
- Differ across organizations in quality and effectiveness
- Can be developed and strengthened over time



Nature of Internal Resources

Internal resources differ in their characteristics, **value, and contribution** to organizational performance. According to the Resource-Based View, **resources are not equally important**, and their strategic value depends on their ability **to support organizational goals and create competitive advantage** (Barney, 1991; Grant, 2019)

Key Features:

- Some resources are more important for achieving competitive advantage than others

Case 1:

Two local cafés have similar equipment and location. One café has a **highly skilled and experienced barista**. Customers prefer that café because of **better quality and service**. The **skilled barista provides greater competitive advantage than equipment**.

Tangible Resources

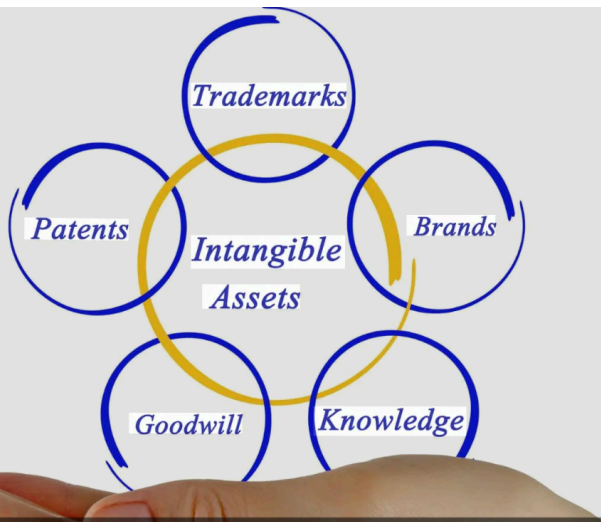
Tangible resources are physical and financial assets that an organization owns and uses to support its operations and strategic activities (Wheelen et al., 2018; Grant, 2019)

- These resources are visible, measurable, and can be easily identified on the organization's financial statements:
 - **Financial** resources such as cash, investments, and access to credit
 - **Physical** assets such as buildings, equipment, and machinery
 - **Technological** infrastructure such as hardware and operational systems
 - **Organizational facilities** such as offices, factories, and warehouses
 - **Raw materials** and operational supplies used in production

Intangible Resources

Intangible resources are non-physical assets that an organization possesses and uses to support its strategic activities and long-term performance (Grant, 2019; Barney, 1991).

These resources are **not visible or easily measured**, but they often play a **critical role in creating competitive advantage**:



- Brand reputation and organizational image
- Intellectual property such as patents, trademarks, and copyrights
- Organizational knowledge and experience
- **Organizational culture and values**
- Relationships with customers, suppliers, and partners

Human Resources

Human resources refer to the **knowledge, skills, experience, and capabilities of employees** that contribute to **organizational performance and strategic success** (Barney, 1991; Wheelen et al., 2018).

Unlike other resources, human resources **have the ability to learn, innovate, and improve organizational effectiveness:**

- Employee knowledge, skills, and professional expertise
- Experience and ability to perform organizational tasks
- **Creativity and capacity for innovation**
- Managerial capabilities and leadership skills
- **Employee motivation and commitment**



Why Internal Environment Analysis?

Internal environment analysis enables organizations to evaluate their resources and capabilities in order to understand their strengths and weaknesses and their impact on strategic performance (Grant, 2019; Wheelen et al., 2018).

Core Attributes:

- Improves resource utilization and managerial decision-making
- Enhances overall organizational performance and competitiveness

Case 2:

due to its **analysis** a local retail store recognizes that its **digital inventory system** is a valuable technological resource. Using this system to **track demand and optimize stock levels**. This **reduces waste, improves efficiency**, and helps the **store compete more effectively with other retailers**.

VRIO Framework

Resource-Based View (RBV) of the Firm

The Resource-Based View (RBV) is a strategic management framework that explains how an organization's internal resources and capabilities contribute to achieving competitive advantage and superior performance (Barney, 1991; Grant, 2019)

Core Principles:

- Competitive advantage is primarily based on internal resources, not external factors
- Effective use of resources improves strategic performance

Case 3:

Two local pharmacies may sell the **same products**. One pharmacy has **better technology and more experienced staff**. This allows it to serve customers **faster and more effectively**

VRIO Framework

The VRIO Framework is a strategic analysis tool used to **evaluate an organization's internal resources and capabilities** to determine their **potential to provide competitive advantage** (Barney, 1991).

Four Dimensions:

Value – The resource contributes to improving **efficiency or effectiveness**

Rarity – The resource is **not widely possessed** by competitors

Imitability – The resource is difficult or costly for competitors to copy

Organization – The organization is able to effectively utilize the resource

Case 4 : Valuable resource

Amazon's data analytics system is a **valuable resource** because it **predicts customer demand accurately**. This valuable resource helps Amazon **optimize inventory and avoid stock shortages**. As a result, Amazon **improves delivery speed and customer satisfaction**. This valuable resource **strengthens Amazon's operational efficiency and competitive position**.



Case 5: Rare Skill and Knowledge Resource



Ferrari employs highly specialized engineers with **unique expertise in high-performance engine design**. Most automotive companies do not have engineers with this level of specialized **skills and knowledge**. These **skills and knowledge** are a **rare resource** because they are difficult to find. This rare resource allows Ferrari to produce superior high-performance vehicles.

Case 6: Imitability Skill and Knowledge Resource

McKinsey consultants possess **specialized skills and knowledge built through 100 years of accumulated and proven consulting experience**. These skills and knowledge are **developed from thousands of complex strategic projects across industries**. Competitors cannot easily replicate this **depth of expertise and organizational learning**.



Case 7: Organizational Resource



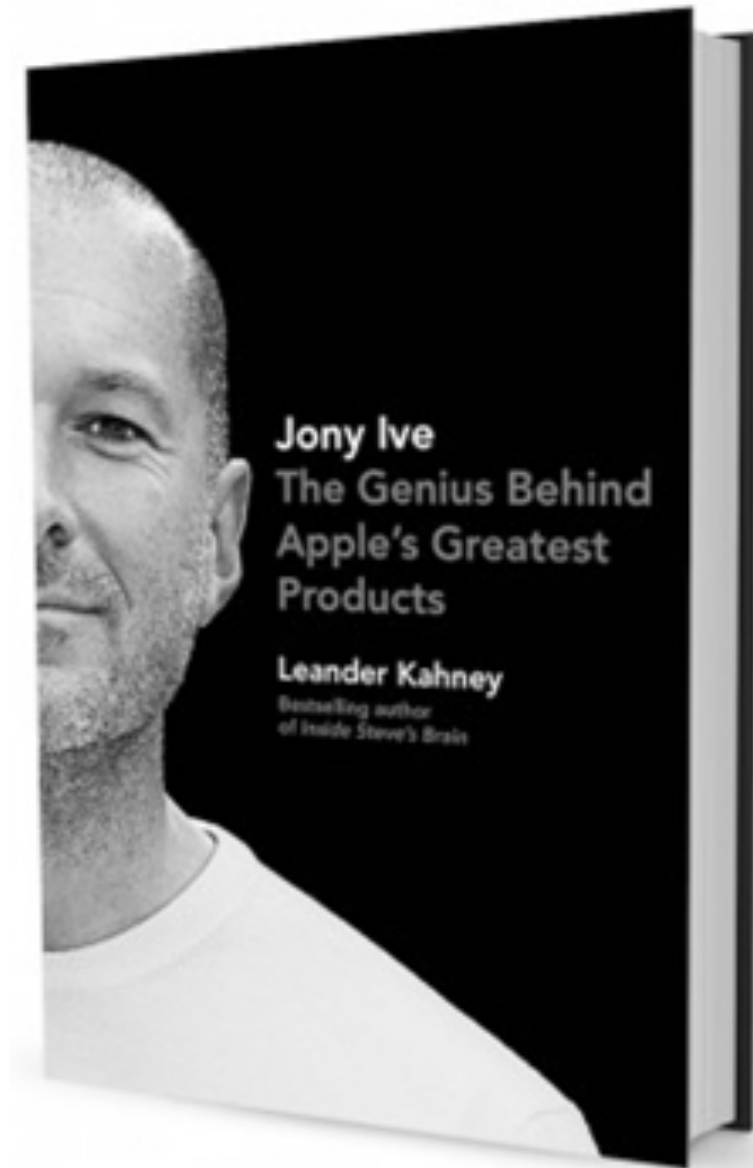
Google's **organizational culture** encourages **innovation** and allows **engineers** to spend part of their **time developing new ideas**. A small group of engineers used this **opportunity to develop key products like Gmail** and improve the search **algorithm**. This supportive organizational **culture** enabled employees to apply their valuable **skills and knowledge** effectively. It enables the **organization to fully utilize valuable, rare, and inimitable** resources to achieve competitive advantage

VRIO Framework In Action

Case 8: Apple Strategic Resource

Apple's teams possess advanced knowledge and skills in product design, user experience, and software integration. These capabilities enable Apple to develop innovative and user-friendly products such as the iPhone and MacBook. Apple's organizational culture emphasizes creativity, collaboration, and high standards. This culture supports employees in effectively applying their specialized knowledge and skills to develop high-quality products.

Competitors attempt to develop similar expertise, but it is difficult to replicate Apple's accumulated knowledge and skills, which have been developed through years of experience and continuous innovation.



Case Instructions

1. Identify the key internal resource described in this case.
2. Explain why this resource is valuable to Apple.
3. Explain how Apple's organizational culture supports this resource.

Discussion Questions

1. What is Apple's most important internal resource in this case?
2. Why are Apple employees' **knowledge and skills** considered valuable?
3. Why are these **knowledge and skills** difficult for competitors to imitate?
4. How does Apple's organizational culture help utilize this resource?
5. Does this resource provide sustained competitive advantage? Explain.

Key Takeaways

- Internal resources and capabilities influence strategic performance
- Employees' **knowledge and skills** are critical strategic resources
- The VRIO framework evaluates the strategic value of resources
- Valuable, rare, and inimitable resources support competitive advantage
- Organizational culture helps utilize resources effectively

Further reading

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Thank you



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