

## Chapter II: Strategic diagnosis of the company.

### - Introduction

Strategic diagnosis involves assessing the current situation of the organisation by analysing the organisation and its environment. It involves an external diagnosis of the environment and an internal analysis of the company. This strategic diagnosis process is similar to taking a snapshot of the company's situation. It involves positioning the company and its competitors in a given market in order to confirm or modify previous strategic choices and thus project the company into a controlled future. The diagnosis identifies the strengths that can be leveraged to develop a competitive advantage, enabling the company to differentiate itself from its competitors and succeed in the market, as well as the weaknesses that the company must strive to limit in order to avoid being overtaken in the market.

### II.1. Definition of strategic diagnosis

The word diagnosis, which comes from Greek, means 'able to discern.' Used in the medical field, it consists of determining the nature of a disease; observing symptoms; analysing and identifying causes that will help the practitioner propose solutions, which may be therapeutic or surgical. Diagnosis can be strategic or operational. Strategic diagnosis seeks to assess the quality of a company's resources or potential in relation to those of its competitors, and based on long-term analysis, which allows trends or problems to emerge.

Operational diagnostics seek to assess the quality of potential exploitation in relation to the potential of the company itself.

Diagnostics are therefore a tool to aid strategic and/or operational management, providing managers with insight into major phenomena and possible causes of malfunctioning in order to help resolve problems or understand certain situations.

### II.2. The objectives of strategic diagnosis

The objectives of the diagnosis are:

- To evaluate the company's performance in comparison with a quantitative reference system (performance of the leading company in the sector, main competitors) and qualitative references (evaluation of the consistency between strategic options and the skills available to the company).
- To identify the company's strengths and weaknesses.
- To analyse macroeconomic and competitive factors in order to identify opportunities and threats related to the company's activity.
- Identification of areas for action and performance targets to be achieved in order to be as competitive as the best-performing companies in the sector.
- Development of an action plan to be implemented in order to achieve the selected performance targets.

### II.3. Expected results of the diagnostic assessment

The expected results are:

- Strategic positioning of the company in relation to national and international competition;
- An overview of the company's functions: sales, technical, finance, human resources management, and information systems;
- Medium- and long-term objectives and the intervention strategy according to the manager's vision.
- The objective to be emphasized for our research is the competitiveness of the company, which we will explain according to *Olivier Meier's* vision as follows:

**Table 1:** The competitiveness of the company.

Reducing costs	The company's ability to reduce its operating, organizational, production, and marketing costs.
Enhancing skills	The company's ability to enhance the organization of work and the skills of the firm
Monitoring market developments	The company's ability to maintain a permanent link with the market (rapid adaptation of the organization to changes in the environment)
Anticipating and creating value	The company's ability to renew its resource system in line with expectations and changes in the environment.

Competitiveness is a company's ability to face competition in order to occupy a strong position based on the following strengthening criteria:

- **Productivity**

Productivity is defined as the ratio between a result obtained (production) and the quantity of factors that had to be used to achieve it. It is therefore the result of the optimal and structured use of production factors (workforce; technical equipment; infrastructure; work organization) in order to reduce production costs.

The main difficulty in measuring productivity arises when it comes to developing services (training; insurance). However, productivity should not be confused with profitability: productivity relates to supply, while profitability corresponds to the relationship between supply and demand.

- **Quality**

For the company, the demand for quality means striving for a high level of professionalism in the production of its products, hence the desire to meet customer requirements by aiming for “zero defects” in statistical terms. This is combined with the concept of “total quality” by making the design and manufacturing process more reliable (better definition of needs, regular deliveries, safety of warehouses, reduction of cycle times) and striving for ethical behavior that satisfies not only customers but also other stakeholders (employees, suppliers, subcontractors, etc.).

- **Innovation**

The demand for innovation reflects a company's desire to introduce economic, commercial, and technological innovations in order to acquire or strengthen its competitive advantages. There are different types of innovation: product (service) innovations, which often arise from market demand for the product or from technological developments that drive innovation; process innovations; and innovations relating to work organization. The latter two types of innovation promote the development or adoption of new methods of organization, manufacturing or distribution, such as the transition from mail order to minitel, then to the internet, which saves time and increases productivity, reduces costs and therefore prices.

#### **II.4. Strategic diagnosis stakeholders**

Once the decision has been made, company management is faced with two options:

-Set up a group, composed of operational and/or functional managers, responsible for carrying out the necessary studies and presenting the conclusions;

-Call on an external consultant who will be paid specifically for such a mission.

The cost of each option will often determine the choice. However, other criteria must be taken into consideration, such as competence, the time available within the company, the prevailing climate, the dominant culture, etc.

A lack of time, enthusiasm or methodological knowledge among the operational team, or the desire for a fresh perspective, may lead to the use of external consultants.

In both cases, there are advantages and disadvantages, which are presented in the following table:

**Table 2:** Advantages and disadvantages of internal and external teams.

	<b>Advantages</b>	<b>disadvantages</b>
<b>Internal team</b>	Good knowledge of the company's operations and organizational culture. Acceptance of the members of the organization by the employee responsible for the assessment and ease of information gathering. -Less expensive.	- Lack of experience.  - Emphasis on certain points regarding organization and the existence of subjective actions.
<b>External team</b>	- Experience in diagnostics and good knowledge of the sector. - A different perspective on how the company operates. - No sensitivities and a more direct and concrete approach.	-Need to adapt to the company and identify the organization's core values. -Expensive.

## II.5. Context of strategic diagnosis

Strategic diagnosis can take place in different situations, which will be illustrated below:

- **Occasional or permanent function**

Strategic diagnosis is the product of methods and procedures implemented within the company, which can become one of the components of the strategic information system and thus enjoy a certain permanence in order to avoid surprises, react quickly, and improve management. However, it is much more common, particularly in SMEs, for diagnosis to be only occasional, with the company resorting to diagnosis either when it faces serious difficulties, or even a crisis or major failure, or when it feels repeated dissatisfaction with its results and/or the measures taken so far.

- **Management objective or external intervention Objective for the company**

The objective of strategic diagnosis may be managerial, as it must provide information on the company's ability to continue and develop its activities. Its purpose may also be to intervene externally in the company's market, for example, an industrial group that ensures its growth through acquisitions or takeovers, or a bank asked to grant credit to the company, etc.

## II.6. The stages of strategic diagnosis

The strategic process is organized into several distinct general stages: strategic diagnosis, strategy selection, strategy deployment and monitoring.

### II.6.1. Conducting a strategic diagnosis

A strategic diagnosis involves assessing the company's situation within its environment in order to determine its chances of survival and growth.

Based on the strategic diagnosis, company managers determine the objectives to be achieved and then make strategic decisions to guide the company towards these objectives and thus determine the strategic choices. The strategic diagnosis coordinates the elements specific to the company established by the internal diagnosis with the context in which the company operates, as analyzed in the external diagnosis.

#### II.6.1.1. External analysis (Opportunities and threats)

Defining the business mission helps management identify the nature of the environment to be observed. The company must analyze both the macro environment (demographic, economic, technological, political-regulatory, and sociocultural environment impacting the business) the microenvironment (customers, competitors, distribution channels, suppliers), identifying all phenomena likely to affect its activity, and the meso-environment (located at an intermediate level between the macro-environment and the micro-environment, it consists of all social or economic institutions whose actions and decisions are capable of influencing the company's strategic choices and behavior). In each case, current trends must be identified and the opportunities and threats they pose to the company determined.

- **Opportunities**

An opportunity for a company is an external phenomenon that is likely to have a favorable influence on its business or profitability.

Opportunities related to the macro environment can take many different forms.

For example, the rise in birth rates represents an opportunity for manufacturers of children's products.

At the micro environment level, it is necessary to identify opportunities arising from current or potential customers, distributors, and changes in partners and competitors. For example, it is possible to identify customer segments that are underserved or unserved, or that would like to buy or consume differently; new distribution channels for an existing product by associating it with specific services; or an innovative or more effective offering that will meet unmet needs, etc.

- **Threats**

A threat is a problem posed by an unfavorable trend or disruption in the environment which, in the absence of an appropriate marketing response, would lead to a deterioration in the company's position. It is a characteristic of the environment that will affect the competitiveness of a company (or group of companies) where all companies in the same industry are also affected. A threat is all the more serious as it will have a profound effect on the company's profitability.

For the company and is likely to materialize. For example, the arrival of new competitors; the merger of two competitors making them more competitive; restrictive regulations; a declining market segment; international instability affecting the market, etc. are all threats that must be addressed.

### **II.6.1.2. Internal analysis: (strengths and weaknesses)**

The purpose of internal diagnosis is to define the strategic potential of the company, i.e., the strengths and assets on which it can rely to define its strategic directions. It should highlight the company's know-how, its business, and its skills. The company also has weaknesses, characteristics on which it cannot rely to define its strategies.

The main focus is on the resources available and their use within the company, with an emphasis on human resources (number of employees, staff structure, skills, social climate, employee motivation, compensation management, etc.) and financial resources (available capital, working capital, debt level, solvency, profitability, financing methods, etc.).

The internal diagnosis may also cover organizational aspects (organizational methods, structure, distribution of powers, coordination, etc.), production-related aspects (production capacity, production lead times, flexibility of the production apparatus, etc.), procurement, marketing, technological capabilities, logistics, etc.

In this way, it identifies the resources and skills available to the company and checks whether their combination enables it to meet the challenges of the environment.

### **II.6.2. Strategic choices**

Strategic choices include selecting future strategies and identifying strategic development directions and methods. Choices must be made in terms of strategic areas of activity, which involves identifying the foundations of competitive advantage, whether internal or external, as well as at the company level, in other words, defining the overall scope of activity. These choices belong to the strategic level of the company.

#### **II.6.2.1. Specialization**

##### **A. Principle and objectives**

The specialization strategy consists of strengthening one's business in a single strategic area of activity, or even a single profession. The niche strategy is a form of specialization that involves identifying a solvent market segment in which the company will develop an innovative or at least original product or service. The company does not therefore target the entire market or sector, but selects a specific product or service for a targeted customer base.

The objective of specialization is to develop distinctive skills (competitive advantage) by concentrating all investments on a single activity.

##### **B. The risks of specialization**

There are two main risks associated with specialization strategies. Specialized companies may be affected by negative economic conditions and see their sales decline over the course of a fiscal year, which can jeopardize their financial stability. Furthermore, when its sector of activity reaches maturity, a specialized company can only continue to grow by gaining market share from its competitors, which makes competition more intense, or by expanding into new markets, which leads to new competitors.

## **II.6.2.2. Diversification**

### **A. Principle and objectives**

Diversification consists of launching into activities in which the company is not present in terms of either product or market. It must therefore seek new key success factors requiring different technical and/or commercial skills. Diversification leads the company to have several strategic business areas (SBAs), and the company then manages a portfolio of activities. The objective of diversification is to minimize the risks associated with economic conditions and the risks associated with the product and technology life cycle. It enables

### **B. The risks of diversification**

The main risk of diversification for the company is having an unbalanced business portfolio that does not generate sufficient profitability. Added to this are risks related to the management of activities that may have different strategic rationales, constituting a difficulty or even an organizational challenge.

## **II.6.3. Strategy deployment**

Strategy deployment is one of the most sensitive stages of the entire process and involves three steps: expressing the strategy, aligning the organization, deploying objectives and resources, and monitoring execution.

### **II.6.3.1. Expressing the strategy**

The support of all staff members is necessary in expressing the chosen vision. Everyone must be able to embrace the purpose(s) of the selected strategy. To achieve this, the strategy must be formulated in a clear and motivating way.

The strategy outlines the company's ambitions over a 3- to 5-year period in terms of its products, its market position, its customers, its results, and its people.

### **II.6.3.2. Aligning the organization**

Aligning the organization means defining its structure in line with the strategic project. To do this, six main types of organization can be deployed: functional structure, decision-making structure, holding structure, matrix structure, team structure, and project structure.

The choice of structure is made in light of the strategic challenges facing the company and must respond to the major issues facing organizations, which are: issues related to control, issues related to learning and capitalizing on experience, issues related to change, and issues related to globalization. In practice, organizations do not correspond to a standard structure; they are most often hybrid structures.

### **II.6.3.3. Resource deployment**

The effective deployment of objectives requires a high level of cooperation and coordination. It relies on a formal planning system whose role is to organize and plan resource allocation and compare achievements against objectives. Planning also makes it possible to clearly articulate the various processes: the budget, objectives, annual reviews, training plan, etc.

The successful deployment of strategy within the organization is based on a key principle: change can only happen with everyone's buy-in. This buy-in from all employees is achieved by:

- Translating the strategy into operational terms;
- Making everyone accountable for achieving the objectives;
- Being able to act quickly and decisively;
- Maintaining motivation by sharing the results achieved.

## **II.6.4. Monitoring**

Performance is generally monitored using management dashboards, which are essential tools for implementing the strategy. One method of steering is to construct a balanced scorecard or forward-looking dashboard (TBP). It is constructed in line with the strategy, as defining the strategy involves setting medium-term financial objectives, defining the market and customers targeted by the offering, identifying the internal processes that are critical to attracting and satisfying customers, and finally determining the capacity of employees and the organization to support the company's strategy.

Implementing a balanced scorecard involves defining five to six indicators for each of the four areas (financial, customer, process, and innovation). Monitoring these indicators allows the company to track the implementation of its strategy.