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## **WHY AN ANALYSIS OF AN ORGANIZATION’S INTERNAL SYSTEM?**

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### **Abstract:**

Today, more than ever, an organization’s managers need to ground their decision-making process in as much information and data as possible in a short period of time. Thus, they need to administer as efficiently and effectively as possible all organization’s operations in all fields of action - human resources, financial resources, logistics resources and information resources, accounting, health and safety, environmental impact, customer and supplier relations, etc. Furthermore, they must be able to quickly identify potential risks and handle them before they become reality and develop negative effects.

Consequently, the analysis of an organization’s internal system provides its managers with the needed information and, at the same time, it converts into a valuable reference framework for the identification and management of risks, as well as for the identification of opportunities to improve and render the processes within the organization more effective.

**Key words:** *organization, management, analysis, organization resources*

### **Introduction**

The management of the organization relies on management as a science and involves the scientific application of methods in the review and settlement of management decision related problems. Regarding this, any effective management activity is based on well-founded decisions. The latter demand simultaneously fulfilling two vast categories of requirements that lead to the correlation of management actions regarding the approach and operationalization of the decisions made with the actual condition of the organization, as well as the use of management methods, and more developed and coherent techniques and policies in a system.

Therefore, before any decision is made and in order to create a solid foundation for it, it is clear that, at a given time, a thorough detailed analysis of one's own system in order to accurately identify the actual condition of the organization is imperative.

### **1. What is an analysis an organization’s internal system?**

The activity of analyzing an organization’s internal system is a complex process by which, in essence, a value is assigned to some properties using particular methods and standards. The organization, as the object of analysis, can be seen from two different points of view: as a sum of patrimonial values, and/or as a profit generator. From this perspective, the main approaches to the analysis of an organization, solely in the light of its system, qualifies in one of the following three categories: *patrimonial methods* also called asset-based evaluation methods, which rely on capital evaluation, or parts of it, which are to be traded, namely on the separate evaluation of all the organization’s available “stocks” at a given time; income-based methods and yield methods, which estimate the value of general activities, of an equity by calculating the present value of expected future benefits. Furthermore, income-based methods assimilate the value of an organization and the amount of income flow that the capital owner can dispose of, through its use, in a reasonable period of time and taking into consideration the associated risks and available alternatives. A final category is the so-called *comparison methods* and market



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evaluation methods, which compare the evaluated subject with other similar market activities, with business participations and with sold shares on the open market.

From another perspective, an important fact in the analysis of any organization is focused on its ability to profit - in any form, in accordance with the purpose of the organization – and that is the most important aspect that any interested person pursues one way or another.

Another distinct aspect which must be mentioned about the activity of analyzing one's own system, is related to the difference between *the value* and price of the organization. Following the analysis, a value is assigned to the organization. That is a conventional quality resulting from judgments, calculations, expertise, and *the price* is a concrete amount resulting from a transaction - concrete or potential - which may be different from the value. Here, the value is an estimated quantity with a higher or lower dose of subjectivism.

In all cases, the analysis of an organization's internal system can be done from the inside or from outside. The first variant claims the possibility of a higher dose of subjectivism than the second. Internal analysis is usually performed by the system's subjects, which indeed, creates an additional advantage for them through detailed knowledge of the system and its operation. However, at the same time, this connection that creates the feeling of belonging, most of the time obstructs them from identifying weak points and the system's weaknesses that are less apparent, both in terms of quantity and quality. An outside analysis of the system is more objective and fair insofar as the system is a co-participant in the evaluation and not an opponent. Additionally, the existence of an agreement embodied in a contract creates a triple responsibility for the external evaluators: *professional responsibility*, which reflects the way the evaluator knows and applies the specific procedures, methods and techniques and the joining way to the code of ethical behavior; *civil responsibility* which manifests itself in virtue of the civil contract, by which the evaluator undertakes the responsibility to provide a service of a certain contracted, and *penal accountability*, which is related to possible violations of the penal law on behalf of the.

Regardless the type of analysis, methods or techniques, its purposes are:

1. Conducting a comprehensive diagnosis, identifying the organization's strengths, weaknesses, opportunities and risks of (S.W.O.T. analysis);
2. Establishing the feasibility of ownership transfer, namely the ownership right over shares or social parts;
3. Obtaining essential and useful information for qualitative determinations that are needed to estimate a reasonable inconsistency in which to be recorded the system's value.

Having specified the purposes of an analysis of an organization's internal system, we further will focus on the stages of such an analysis and its effective execution.

## **2. What are the stages of an organization's internal system analysis?**

In a complex analysis paper, the organization's diagnosis and evaluation involves specifying some phases and stages of work. They are formed by a logical structure of specific activities and works and at the same time, ensure a high level of veracity of the established calculations and values.

The steps, namely the main actions, are listed below and their enumeration is not exhaustive:



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*2.1. Defining the mission of the analysis.*

When setting the evaluator's mission, it is essential to identify and understand the system's problem. Therefore, after a correct identification of it, the evaluator can define his mission, looks for the necessary information, chooses the most appropriate methods and forms a team with the necessary experience and professionalism.

Because each analysis is individualized in accordance with the organization's specifics (industrial, agricultural, commercial, non-commercial, services, enterprise, etc.), it represents a particular case. Hence, the analysis' purposes and objectives are also different as the final result claim, i.e. change, modernization, adaptation, sale, merger, liquidation, etc. At the same time, the way the needed data and information are generated, requires a different composition of the analysis team and a certain work schedule.

*2.2. Knowledge of the analyzed objective.*

This stage involves contacting the staff holding the items subject to analysis and identifying sources of information in order to collect, process, group and analyze the necessary data and information.

*2.3. Diagnosing the current condition.*

Diagnosis, a notion borrowed from medicine, represents a complex analysis of the situation of resources and results obtained over a certain period of time in the past, conducted until the date of analysis. It usually includes, through a critical analysis, the following fields: technical and commercial; personal and managerial; financial and legal.

This phase, like the following ones, is compulsory in the analysis of enterprises in their entirety or of only their independent assets.

*2.4. Diagnosis the future situations.*

The diagnosis of future situations or possible forecasts is, mostly, the consequence of prolonging the current state and the past results on which the corrections were made, as envisaged either as a result of the existing data or, and/or ensuing from expert assessments.

*2.5. Calculation of values.*

This phase not only represents the essence of the evaluation report, but it also forms the paper's substance because it starts by choosing the most appropriate evaluation methods in the given case, performs the full range of calculations, often using IT, determines their differences and then justifies the differences, etc.

*2.6. The motivation of the selected values.*

The values are chosen based on the most appropriate criteria for the enterprise or asset under analysis and are based on certain specific parameters - assets, flows, risks, etc. - as well as intangible and valued elements that are hard to quantify. For such reasons the evaluator is obliged to argue the choice of some of the values and/or the rejection of others, comparing the calculated values among them, showing the advantages and disadvantages of each.

*2.7. The presentation of the analysis report.*

The final drafting of the evaluation report namely its last version, represents the final stage of the evaluation task. That is finalized after joint discussions within the working team and after the last corrections are performed. All those activities are completed before the report is received by the beneficiary.



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### **3. What implies the execution of an organization’s internal system analysis?**

From the beginning of the analysis activity the project manager, who will also be the coordinator of the analysis team, is designate. In this phase, the project manager forms his team of specialists, taking into account, firstly, the system’s specifics and the analysis’ particularities, and secondly, the availability of collaborators in the period of time in which work execution is requested. As a peculiarity of setting up the analysis team, initially that will be more numerous, taking into account the complexity of the topics that are to be analyzed. Then, after sorting the problems, the number of specialists, as well as the possible availability of expert evaluators, decreases as the project needs. Team size cannot exceed a certain number of specialists in order to have a correlation and a useful exchange of information both horizontally and with its coordinator.

The next step is made by the project manager/team coordinator who starts planning the activity, on a graphic which will mathematically establish the project’s midterm stages, their duration and placement, the connections and conditions between this stages, the composition on each stage of the working groups, as well as the moments when the meetings with the management of the analyzed organization will take place.

Further, the team will prepare the documentary material, which will include the results and actions conducted by similar analysis projects in the recent past, certifying this documentary with specific activities to collect information and general data about the activity situation at national level, regional and local, at the time of conducting the activity. During this time, the questionnaires and templates will be prepared for the collection and ordering the organization’s information. Additionally, the persons within the organization who will verify and approve the final analysis report will be appointed.

Also, the works performed by collaborators will be subcontracted – to organizations or retail experts - and all these activities will be planned and coordinated. When this whole preparation stage will be clarified and completed, the field activity will start.

At this point, it is advisable to start with a meeting and a general briefing, in the form of a work meeting with the organization's management and the main heads of structures and substructures - also including heads of departments and even a visit to the field of the organization. The purpose of this working meeting is to mutually agree - the analysis team with the organization’s leaders - on the work plan, as well as on the data and information that have to be prepared by the organization and made available to the analysis team.

Given the emotional impact generated by the evaluation activity, the inherent resistance that is inevitably manifested in such circumstances, as well as the urgent need to avoid generating feelings of hostility to those that are evaluated, some rules of conduct must take in consideration by the evaluation team, during the activity of gathering information from the organization. For this, the evaluation team will have to clearly and unequivocally explain the diagnosis’s purpose, in order to avoid reactions of rejection or participatory collaboration blockage. Moreover, the expert evaluator must take notice and show courtesy, especially during interviews and discussions with those responsible in the organization. At the same time, the activity of experts must be transparent and fully focused on the analysis of methods, processes and results, and not on people.

All the system’s analysis activity is essential, materializing in a final report that will include all the relevant results of the diagnosis for the organization's management, which will be



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requested to provide a substantial feedback on the entire activity of the analysis team. This feedback is necessary to clarify all the divergences and ambiguities that appear during the entire analysis of the organization's internal system.

### **Conclusions**

The evaluation activity is a complex process that requires building a team formed by specialists with experience both in evaluation and analysis. In essence, the analysis of an organization's internal is designed to add value to the organization's entire activity, by evaluating and comparing the results obtained with those proposed or expected, in conditions of economy, efficiency and effectiveness.

In other words, the process of analyzing an internal system within a given organization aims at identifying whether during the process of implementing the objectives and responsibilities of an organization the criteria for evaluating the results and estimates are correctly and realistically established, as well as the extent to which the results are in accordance with the established objectives.

These are just some of the reasons why any organization on its path to success must periodically conduct an analysis of its internal system.

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