

## A Study of Methods and Techniques of Organizational Appraisal

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### Introduction

The purpose of organizational appraisal is to determine the organizational capability in terms of the strengths and weaknesses that lie in the different functional areas. It is also known as internal appraisal, internal analysis, organizational analysis and company analysis etc. There are two approaches to Organizational Appraisal – Systematic and Ad hoc.

**1. Systematic Approach:** A systematic approach is adopted as a proactive measure to appraise the organization and is used when the strategies opt for formal strategic planning systems.

**2. Ad hoc Approach:** An ad hoc approach is generally used as a reactive measure in response to a crisis.

### Objectives:

1. To study the concept and need of organizational appraisal.
2. To study the methods and techniques of organizational appraisal.
3. To understand the working implementation of the inventory control techniques.

### Methods and Techniques used for organizational appraisal

The methods and techniques used for organizational appraisal can be identical to those used for the performance evaluation of an organization. But there is an important difference between performance evaluation which focuses on assessing the current behavior of the organization with respect to its efficiency and effectiveness which is for a short term period. Whereas organizational appraisal is of comprehensive and long term nature and the emphasis is on the organization needs to gain capability to compete in the market, take advantage of the available opportunities and overcome the threats operating in the relevant environment. The methods and techniques used could be broadly classified in three parts as given below:

#### 1. Internal Analysis

- A. Value Chain Analysis
- B. Quantitative Analysis
  - i. Financial Analysis
  - ii. Non Financial Analysis
- C. Qualitative Analysis

#### 2. Comparative Analysis

- A. Historical Analysis
- B. Industry Norms
- C. Benchmarking

#### 3. Comprehensive Analysis

- A. Balance Scorecard
- B. Key factor Rating

**1. Internal Analysis:** The internal analysis of an organization deals with an investigations into its strengths and weaknesses by focusing on factors that are specific to it.

**A. Value Chain analysis:** This is a method for assessing the strengths and weaknesses of an organization on the basis of an understanding of the series of activities it performs. The value chain is a set of interlinked value creating activities performed by an organization. For ex.

New Product Development  $\rightarrow$  Marketing and Sales  $\rightarrow$  Operations  $\rightarrow$  Distribution/ Services

#### B. Quantitative Analysis:

**i. Financial Analysis:** A technique such as financial ratio analysis assesses the liquidity, profitability, leverages and activity aspects of an organization.

**ii. Non Financial Analysis:** In this type there are two techniques as follows:

**a. Economic Value Added (EVA):** An alternative measure of financial performance in an investment centre is segment EVA. EVA is essentially the surplus left after making an appropriate charge for the capital employed in the business.

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**Activity Based Cost:** Activity based Costing is a system that focuses on activities as the fundamental cost objects and uses the costs of these activities as building blocks for compiling the costs of other cost objects. An outline of an ABC system is as follows:

1. Identify the major activities that take place in the organization.
2. Determine the cost driver for each major activity.
3. Create a cost centre / cost pool for each major activity.
4. Trace the cost of activities to products according to a products' demand for activities.

**C. Qualitative Analysis:** Many of the strengths and the weaknesses of an organization can be expressed in qualitative terms. For ex. Qualitative analysis can be used best to express the tenor of corporate culture, the ability to absorb and assimilate knowledge, or the level of morale among employees.

## 2. Comparative Analysis:

**A. Historical Analysis:** One way to compare performance and identify strengths and weaknesses is to start with the historical analysis of one's organization over a period of time. It gives evidence of how the same organization has performed on the basis of common parameters.

**B. Industry Norms:** The industry to which a business belongs is the most obvious choice with regard to a wide range of parameters. Industry norms provide good ideas to firms regarding the areas in which they excel or need improvements. This can help them in locating their areas of strengths and weaknesses.

**C. Benchmarking:** Benchmarking is a continuous process of comparing products and operations with the strongest competitors or the best practices in similar operations of the best performing company. Benchmarking is a process that is in contrast to the traditional method of establishing current goals based upon past performance of the organization. Target costing is a specific form of benchmarking applied to product costs.

**3. Comprehensive Analysis:** Comprehensive analysis helps to deal with limitations arising out of analytical methods to evaluate the strengths and weaknesses of a firm and to determine its capability.

**A. Balanced Scorecard:** It's a device of linking financial and non financial measures and identifies key performance measures that give top management, a first but comprehensive view of the performance of the organization unit.

**B. Key Success Variables:** In order to know the responsibility centre is moving in the correct direction, it is necessary to get the proper signals. These signals are crucial to the attainment of strategy, goals and objectives of the responsibility centres. These crucial variables are called key variables or key success factors.

## Conclusion

In this way, these are the different methods and techniques of organizational appraisal. As per the situation and available data and resources, the business unit has to decide the appropriate technique to be adopted by them.

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