1998: What's SWOT in Strategic Analysis by David W, Pickton and Sheila Wright

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What's swot in strategic analysis?

- *Environmental analysis is a critical part of the strategic management planning process. The SWOT (Strengths, Weaknesses, Opportunities, Threats) framework is proposed by many as an analytical tool which should be used to categorize significant environmental factors both internal and external to the organization.*
- *SWOT analysis has been praised for its simplicity and practicality. As a framework it has been widely adopted but, generally, its use has been accepted uncritically. It is timely to reappraise its value as a strategic management tool.*
- *If used simplistically, the SWOT framework is a 'naive' tool which may lead to strategic errors. More detailed analysis using complementary frameworks can overcome SWOT's inherent shortfalls.*
- *SWOT should not be viewed as a static analytical tool with emphasis solely on its output. It should be used as a dynamic part of the management and business development process.*
- *Despite impressions often created by many authors on the subject who portray strategic planning as systematic, sequential and rational, the realities of planning reveal that strategy formulation is more likely to be somewhat more incremental, non-rational and irregular; more 'organic' than 'mechanic'. Use of the SWOT framework tends to be most*

closely associated with the 'mechanistic' approach and suffers as a consequence of this association. SWOT analysis does not have to be mechanistic; adoption of the approach proposed here with emphasis on its process values as well as its output is strongly recommended.

Introduction

Analysis of the business environment is extolled as a fundamental part of the strategic management planning process. In making sense of such analysis, consultants, business schools throughout the world and textbooks propose the use of the SWOT framework (Strengths, Weaknesses, Opportunities and Threats analysis) to practising managers and business and management students as a precursor to strategy formulation, managerial decision making and action.

As a framework, SWOT analysis is highly commended for its simplicity and value in focusing attention on key issues which affect business development and growth. It therefore has the potential to become a significant tool in identifying the factors which are most likely to influence a firm's strategy and success. Yet its very simplicity can be its downfall.

Although many will be familiar with SWOT, it is felt necessary to provide a brief overview. The reader may wish to refer to Kotler (1991), Palmer and Hartley (1996), Wilson *et al.* (1992), Johnson and Scholes (1993), McDonald (1992), Fifield (1992) and others for further elaboration. It is significant that the limitations of SWOT analysis tend not to be considered and elucidated by many authors although such shortcomings are, perhaps, the reasons why authors such as Aaker (1992), O'Shaughnessy (1988) and Greenley (1986) do not emphasize the use of the SWOT framework in the first place.

This paper reports on experience with managers on business and management programmes and 'action' research which has shed light on the use of SWOT and on its practical difficulties and limitations. Warning is given that a too simplistic adoption of the SWOT activity can lead to damaging consequences and suggestions are made as to how organizations can introduce this form of analysis to avoid its potential pitfalls through the use of Performance–Importance, Opportunity and Threat matrices. These approaches have been reported elsewhere and are only briefly referred to here.

While recognizing some of the limitations of SWOT analysis, the paper also acknowledges its benefits, the value of which is not only seen in its *outputs* (which may be used in the development of sound strategic business plans) but also in the very *process* of carrying it out. Highlighted are the extra benefits to be gained in the use of SWOT not just as a static analytical tool which helps generate an understanding of business activity but, also, as a dynamic part of the management process which can actually facilitate management development and which can be harnessed to the advantage of all involved. It can be seen as a valuable management tool which may be easily absorbed with good effect into the realities and practicalities of an organization's existing planning and strategy formulation processes.

Environmental analysis

Businesses seek survival, improvement and success. To fulfil such outcomes, management planning and decision making require information about business operations and the circumstances which surround them; such information is the basis upon which business decisions may be made. By monitoring the business environment it is possible to gain a view of the market and competitive position of the business. If no such activity is undertaken, businesses increase their risks to a point where their very survival may be in jeopardy.

So-called 'environmental scanning' and 'environmental analysis' (although many may use alternative terminology) are considered such a fundamental and basic part of the business planning process that the need to carry them out is accepted without question. There are few, if any, who would deny the inherent value of, and necessity for, an understanding of the business environment as a precursor to management decision making although there is only mixed evidence to suggest that businesses carry out such environmental 'auditing' very well.

Businesses seek survival, improvement and success

Increasingly, this environment is being defined 'holistically' to include not only those elements external to the business but also those internal to it (although it is the authors' experience that more attention tends to be paid to the external, rather than, internal factors). SWOT analysis embraces both as it endeavours to make sense of the 'raw' information generated from the environmental audit.

What is SWOT and what SWOT is not!

Business planning is typically portrayed as something which should be a deliberate, sequential, systematic and rational process. In reality, this is not the case. It is a social activity which is better described as somewhat more informal, irregular, incremental and non-rational (Taylor, 1982). It is a process which embraces the values and power of those involved (Taylor, 1982). The reality of planning is less mechanistic and more organic than many authors suggest. Unfortunately, SWOT analysis has tended to be associated with mechanistic planning and this association has tended to unnecessarily limit managers' and academics' views of the use and value of SWOT.

SWOT analysis involves the collection and portrayal of information about internal and external factors which have, or may have, an impact on business. Stacey (1993) describes SWOT analysis as

> a list of an organization's strengths and weaknesses as indicated by an analysis of its resources and capabilities, plus a list of the threats and opportunities that an analysis of its environment identifies. Strategic logic obviously requires that the future pattern of actions to be taken should match strengths with opportunities, ward off threats, and seek to overcome weaknesses. (p. 52)

It should be noted that other authors (e.g. Porter, 1985; Tilles, 1968; Ansoff and McDonnell, 1990; Johnson and Scholes, 1993; Davidson, 1987; Mercer, 1992; Argenti, 1989; Brassington and Pettitt, 1997) also emphasize that the analysis should be undertaken by reference to the firm's competitors so that strengths and weaknesses are only such in comparison to the competition and opportunities and threats only arise out of the collective actions or inaction within the marketplace of the firm and its competitors in their response to changing environmental forces. They are, thus, relative and not absolute and the firm's task is to seek competitive advantage.

Although there are many corporate planning and marketing texts which refer to SWOT (both academic and those that purport to provide practical advice to businesses), there are few which allude to the *process* benefits of conducting SWOT analysis. While some authors prefer not to propose the SWOT framework at all (O'Shaughnessy (1988), Greenley (1986)), others proffer only brief descriptions which provide little more than the simple SWOT framework itself (e.g. Brown and McDonald, 1994; Baker, 1992; Kenny and Dyson, 1989; Brown, 1993; Carson *et al.*, 1995; Brassington and Pettitt, 1997) even if those authors do at least issue some warnings on its use. Indeed, some authors describe SWOT entirely in terms of a framework or list such as shown in Stacey's quotation above and Kay's (1993) below:

> The best and most familiar example of an organizing framework is SWOT analysis . . . SWOT is simply a list. It conveys no information in itself.
>
> The author proceeds:
>
> It is a particularly useful list, as demonstrated by its continued popularity . . . (p. 358)

While this viewpoint is entirely understandable, it can lure the reader into reducing SWOT analysis to its most basic and fail to realize its full potential. Organizations which perceive SWOT in this way run the risk of producing a simplistic analysis upon which inappropriate decisions may be based.

The SWOT is often portrayed as a 2×2 matrix and in this form is, indeed, no more than a listing or categorizing of 'environmental' factors under the headings of Strengths, Weaknesses, Opportunities and Threats. Strengths and weaknesses pertain to factors internal to the company and opportunities and threats pertain to factors external to it. Figure 1 illustrates a SWOT analysis produced for the Firkin public house and brewing interests.

To its credit, SWOT analysis is supremely simple and, possibly, its greatest advantage is that its use allows management to focus its attention on the key issues which affect business development and growth. At this level it may be described as a naive form of analysis because it would typically consist of little more than a listing of factors which have been 'intuitively' generated by one or more members of the company or an external agent of the company. The resultant chart should provide a reasonable overview of major issues which can be taken into account when subsequently drawing up strategic plans for the business but is often predicated upon the views of one manager (or a biased few) all of which contribute to the naiveté of the analysis generated. More sophisticated analysis is often not conducted although the process of SWOT analysis certainly does not preclude the opportunity.

SWOT analysis is supremely simple

At its most basic, carrying out a 'SWOT' is a 'low-grade' form of analysis which causes some people to question whether it is truly *analysis* at all.

Mercer's (1992) views are entirely in keeping with those expressed in this paper:

> It tends to persuade companies to compile lists rather than think about what is really

Internal	*External*
Strengths	**Opportunities**
Monopolies Commission hostile to big brewers	Increasing availability of licensed premises
Strong and broad cult following	Guest beers
Strong cash flow	Brewing of lager
Financial backing of Stakis Group	Further growth in London
	High growth potential in rest of the UK
Weaknesses	**Threats**
Dubious name may limit expansion opportunities	Lack of direction under Stakis management
Management complacency	Loss of entrepreneurial management
Erosion of Firkinism	Increasing competition from similar
Poor location of current pubs	Saturated London market?
	Risk of declining appeal of Firkin pubs (analogy of fads like skateboards, etc.)

Figure 1. An example SWOT Analysis — Firkin Pubs and Brewery. (Source: *Competitive Marketing Strategy for Europe*, Brown and McDonald 1994, p. 284 with permission of Macmillan Press Ltd.)

important to their business. It also presents the resulting lists uncritically, without clear prioritization; so that, for example, weak opportunities may appear to balance strong threats. (p. 706)

SWOT analysis which is conducted to produce a simple listing output is, frankly, inexcusably inadequate. In practical terms, a serious risk is taken if the SWOT is left at this naive level — it may be considered inherently dangerous because a false sense of confidence in its findings may be created which in turn may lead to poor management decisions and action. While consultants and academics extol the virtues of SWOT analysis and recommend its use in the early stages of business planning (e.g. Piercy, 1991; McDonald, 1992; Fifield, 1992; Carson *et al.*, 1995), descriptions of SWOT analysis typically do not address the problems and limitations which are often experienced in its use. This is a great pity as most of these difficulties can be overcome quite easily, resulting in a greatly improved piece of analysis with the added benefit of enhancing management development.

Experience with managers on business and management programmes and 'action' research within organizations has revealed inherent limitations in the practice of 'SWOTing' both in terms of the processes involved and in its output. In the case of the former, this is addressed below in the section 'SWOT analysis as a management process'. In terms of the SWOT output, Table 1 provides a summary of the limitations discovered under three headings which appear to embrace the range and types of limitation encountered: Inadequate Definition of Factors; Lack of Prioritization; and Over-subjectivity/Compiler Bias.

By way of illustration of the factors identified in Table 1, it is possible to look at the difficulties experienced when trying to categorize a commonly identified factor — that of '*exchange rates*'. This factor affects any business operating in an international context whether this be buying, selling or investing overseas. Managers typically seem to have a great deal of difficulty in placing this factor satisfactorily within the SWOT framework because it is a factor which often fits into all three areas identified in Table 1: it is poorly defined, lacks priority compared with other factors, and is typically represented subjectively.

Exchange rates fluctuate and can prove to be both an opportunity and a threat. If it cannot be placed into the correct SWOT box then it renders the analysis useless or, at the very least, flawed. The movement of exchange rates would have to be forecast to determine which of these it was likely to be and to create a sense of priority or importance or impact for this factor. If the forecast is for stable exchange rates over the next strategic planning period then the level of priority for the business is likely to be diminished whichever way the rates fluctuate. If limited or no external information is obtained to better inform judgements about the movement of exchange rates then the opinions expressed are just that — opinions or views which reflect the bias of the compiler of the SWOT chart.

Unfortunately, the difficulties faced in this example of exchange rates are not isolated and they bedevil managers' attempts to produce meaningful analysis. In particular,

Table 1. Limitations in the use of SWOT.

Inadequate definition of factors	Lack of prioritization of factors	Over-subjectivity in the generation of factors: compiler bias
Factors which appear to fit into more than one box/category	Factors which are given too much emphasis	Factors missed out: lack of comprehensiveness
Factors which do not appear to fit well into any box/category	Factors which are given too little emphasis	Serendipity in the generation of factors
Factors described broadly: lack of specificity	Factors which are given equal importance	Disagreement over factors and to which box/category they belong
Lack of information to specify factors accurately		Factors represent opinions not fact

the definition of strengths and weaknesses is especially sensitive and open to extreme bias.

SWOTing and plotting

How, then, can the 'simple' SWOT listing be improved? Kotler (1991) has identified a means by which many of its limitations can be overcome yet it is surprising to see so little reference to this approach in other writings. He advocates the development of Opportunity and Threat matrices which encourage an assessment of the likely probability and impact any factor may have on the business. The process of conducting these extra stages of analysis can result in an improvement in the clarity of the factor (i.e. an improved definition) and allows an assessment of the relative importance of the factor compared with others in the analysis (i.e. prioritization). Thus, a factor which scores highly on both 'probability of occurrence' and on 'likely impact on the business' would have to be one worthy of close attention and play a significant part in the development of the business's strategic plan. The reverse would be true of factors which obtain low scores; such factors could even be removed entirely from the SWOT analysis due to their lack of relevance.

Similarly, Strengths and Weaknesses can be further assessed against a scoring system which allows the factors to be identified according to their significance (major, minor or neutral) and level of importance (high, medium, or low). Such assessments need to be considered relative to the firm's competitors. It is then possible to represent this analysis in a Performance–Importance matrix which highlights those factors which are both important and in which the performance of the business is low. It is towards these factors that the company should pay particular attention.

Examples of these more 'sophisticated' forms of SWOT analyses can be found in Kotler (1991), Palmer and Hartley (1996), Wilson *et al.* (1992) and, using a modified scoring scheme, Johnson and Scholes (1993). The Stanford Research Institute's 'Vulnerability Analysis' approach (Hurd, 1977) proposes a formal methodology for utilizing the judgements of individuals to provide scores which may be agreed upon by adopting Delphi forecasting techniques.

By way of a brief illustration to emphasize the value of this analysis, as part of a research project, a SWOT analysis was undertaken with the aid of the managers of an engineering company. Initially, a simple SWOT chart was constructed in which the company identified some 7 strengths, 7 weaknesses, 9 opportunities and 10 threats which were considered relevant to the business at that time. This listing was produced with the involvement of a consultant and 10 staff representing different sections of the company and different levels of the management hierarchy. Where necessary, extra information was gathered from within and outside the company to more accurately inform the process. Further analysis was then conducted by asking the consultant and a group of managers to assign scores to each of the factors identified. The scores represented participants' views of the likelihood and impact of the opportunities and threats, the size of the strengths and weaknesses and their relative importance to the company. Any discrepancies in scoring resulted in further discussions until a consensus was reached. The results were then plotted on appropriate Opportunity, Threat and Performance–Importance matrices.

Significantly, although a variety of threats faced the company, a simple SWOT chart would have resulted in the company focusing their attention (and subsequent strategic plans) towards what they considered might be a threat from a new competitor. The managers, having experienced the process of producing a threat matrix, realized that this potential threat was of little concern and that another threat, that of a skill shortage of key staff in the area, was much more pressing. In the early SWOT chart, the skill issue was merely one of many which, initially, was not recognized to be of particular concern because it lacked any sense of prioritization when compared with the other SWOT factors. Without the more detailed analysis which resulted in a better specification of the issues and a recognition of their relative importance and urgency, the company's efforts might have been misdirected with undoubted damaging results.

SWOT analysis as a management process

Although the use of Opportunity, Threat and Performance–Importance matrices do significantly improve simple SWOT analysis by overcoming some of the limitations identified in Table 1, namely, prioritizing the factors and helping them to be better defined, this extra analysis does not address, directly, the criticism of the process being highly subjective. Heavy reliance *is* placed on the single manager or group of managers compiling the SWOT. Even if many managers share the same viewpoint this may not be because their view is accurate but, rather, may be the result of the same shared bias even if, as in the Stanford Research Institute's approach, Delphi techniques are employed. However, this very subjectivity can be turned to advantage.

Firstly, it should be emphasized that the analysis does not have to rely solely on the managers' opinions. Much data can be researched and gathered to support or refute these opinions. Many would argue that the process of conducting environmental audits should be continuous and involve a great deal of information gathering to ensure timely and accurate information on which to base subsequent analysis. While these activities are undertaken in some companies, there is little evidence to suggest that the practice is commonplace or extensive. It is advisable, then, to ensure a regular flow of information so that the SWOT analysis may be made more objective.

Second, no matter how subjective or objective SWOT analysis becomes, it may be significantly enhanced by considering it as a management *process* in which the very activity of carrying out the analysis is as important as the final result.

In a piece of sponsored research investigating top management teams, 90 senior managers were interviewed and 'action' research with 10 companies was conducted. What became clearly evident was the value of SWOT as a management *process* and not just as an *output*. Although the research focus was not on the use of SWOT *per se*, SWOT analysis became the principal means by which the researchers undertook their early investigations with the participating companies. The researchers worked over a period of time directly with the top teams and middle managers within the companies on the companies' own development plans. The top team in each company was determined by the senior managers themselves (from four to eight managers) and SWOT was introduced as an activity involving a range of key staff. The actual process varied from company to company, sometimes involving just the top team, sometimes involving both senior and middle managers. Sometimes the process involved all members being present at each meeting and sometimes two groups were convened and results compared and consolidated at a final meeting. In one instance, the results from a middle manager group varied significantly on a number of issues from those of the senior manager group. It was possible to investigate the reasons for the discrepancies and address the issues raised to the benefit of the whole organization. In this case, the findings from each group was based on its own particular perspectives and the middle managers viewed the strengths and weaknesses of the firm in a significantly different way to the senior managers. Both viewpoints were highly subjective but both, in their own ways, were valid.

Argenti (1989) has previously emphasized a team approach to undertaking SWOT and it is the process of involvement which is encouraged here. The research undertaken did not reveal a single, best approach to undertaking the SWOT — it varied from company to company to reflect and incorporate company culture and management attitudes. What *is* recommended is that

SWOT analysis should be a group activity involving managers (and any other relevant staff) at different levels of the hierarchy and should involve the top management team. What is *not* recommended is the delegation of the SWOT to subordinates or an external agency although such members may be participants. Indeed, there may be good cause to suggest that representatives from a variety of stakeholder groups should be involved as they each bring to the analysis their own particular perspectives. What is considered important is that the top team should always be involved in the process of SWOT analysis and not just be the recipients of its output. On completion of the research, it was clear that by placing emphasis on involving many managers in the SWOT process, not only was the SWOT 'output' improved but also the managers reported that they, themselves, had benefited personally. In this way, undertaking SWOT analysis can be seen as a beneficial management development tool.

SWOT analysis should be a group activity

Conclusions

An attempt has been made to emphasize the value of SWOT analysis while at the same time warning of the dangers inherent in using SWOT as a simple listing device. SWOT factors require detailed investigation in order to understand their nature and implications for the business. Devices are available to improve SWOT charting which convert the SWOT into a true form of analysis. These devices include the development of other matrices which rely on scoring procedures to create a level of significance for each of the SWOT factors. Referred to here were Performance–Importance, Opportunity and Threat matrices and Vulnerability Analysis although there are other systems which can be adopted. In particular, it is advocated that SWOT should be seen as a management *process* which involves key staff interacting with each other in the production of the SWOT analysis. The SWOT becomes the focus to draw managers together to discuss relevant issues affecting the business and as such SWOT becomes a tool from which strategies may be developed and a tool which enhances management development.

In reviewing the experiences of using SWOT analysis as a management process subsequent to the completion of the 'action' research project, the following advantages were perceived:

- improvement in the quality of the SWOT analysis produced;
- clearer view of the information requirements for the business was generated;
- improved and shared understanding of the business and factors affecting its performance;
- better understanding of manager and interdepartmental points of view and prejudices;
- opportunities for management development were provided for the managers involved;
- improved team working;
- improved strategic plans for the business were developed.

Biographical note

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