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SWOT Analysis Framework

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In setting strategies or future directions for a firm, it is important to understand the general or macro-environment surrounding the organization as well as its industry and competitive environment. It is [p. 813 ↓] also important to assess the firm's internal strengths and weaknesses. A tool used to facilitate this understanding is the SWOT analysis framework. Researchers in strategic management agree *S*trengths, *W*eakness, *O*pportunities, and *T*hreats analysis provides the foundation for realization of the desired alignment of organizational variables. By listing favorable and unfavorable internal (strengths and weaknesses) and external (opportunities and threats) issues in the four quadrants of a SWOT analysis grid, which resembles simply drawing a vertical and an intersecting horizontal line in the center of a piece of paper and labeling each of the four squares for one of the letters of SWOT analysis, planners can better understand how strengths can be leveraged to realize new opportunities and understand how weaknesses can slow progress or magnify organizational threats. In addition, it is possible to postulate ways to overcome threats and weaknesses or future strategies, from SWOT analysis. This entry addresses the fundamentals of SWOT, including how to prepare a thorough analysis; discusses its importance in practice and criticisms in usage; and finally, suggests alternatives to use with or in place of SWOT analysis.

Fundamentals

A SWOT analysis can be constructed quickly and can benefit from multiple viewpoints as a brainstorming exercise. Typically managers first consider internal strengths and weaknesses (at the top row of the 2 × 2 grid) which can include image, structure, access to natural resources, capacity and efficiency, marketing, operations, and financial resources. At the bottom row of the SWOT grid, external opportunities and threats, including customers, competitors, trends in the market, partners and suppliers, social changes and new technology, and various environmental economic, legal, social, political, and regulatory issues are included. When SWOT is used to analyze a country and not a single organization, classification of variables is different. Macro-environmental forces that would be an external threat or opportunity for a company

are components that would exist within a country and are thus classified as internal strengths and weaknesses.

Strengths are assets often unique to the organization that competitors may not possess and could include marketing skills, critical human resources, or even a product patent. *Weaknesses* may include pressing problems, including lack of cash flow or high debt, little market recognition, a weak website, or not using industry standard software. Externally, *opportunities* are ways to gather new business, often relying on an organization's strengths and could include ideas such as expanding internationally, marketing an "add-on" product or service, or pursuing a new major supplier. *Threats* may face the entire industry but could become opportunities if a firm quickly takes advantage of them. Examples of threats include new legislation, changes in the demographic makeup of the customer base, new technology, depressed economy, or an unstable political environment.

The idea behind SWOT analysis is to complete the list of variables under each of the four headings through brainstorming with company managers, employees, customers, consultants, or other knowledgeable parties and then developing strategies or future directions for an organization. The tool reminds managers that strategies must create an internal and external match. SWOT is used by business students, consultants, practitioners, marketing researchers, and academicians alike. The term was first described in the late 1960s, although the exact origin of the term is unknown.

Importance

SWOT's simplicity and catchy acronym perpetuates its usage in business and beyond as the tool is used to assess alternatives and complex decision situations. In the business arena, the grouping of internal and external issues is a frequent starting point for strategic planning. SWOT analysis is one of the most prevalent tools of strategic planning. The traditional SWOT analysis can be reconceptualized in terms of the direction and momentum where the market can still be changed. This provides insight into teaching marketing strategy and competitive rationality skills. It is a traditional means for searching for insights into ways of crafting and maintaining a profitable fit between a commercial venture and its environment. SWOT is used to identify cultural

impediments and advantages and external governmental roles as well as internal company issues.

While SWOT analysis is primarily used to help an organization plan future strategies, the framework can also be applied to individuals or groups of [p. 814 ↓] individuals. Studies report use of the tool for individual organizations, for comparing two companies, and for assessing several companies. In studies of individual organizations, SWOT's use can be found in the subcategories of education; health care, government, and not-for-profit and for-profit companies. Industry studies have also benefited from SWOT analysis, and studies have even used the popular methodology to compare two or more industries.

More recently, SWOT analysis has been used to focus on countries or country pairs as well as entire industries. In the academic research, studies using SWOT range from assessing political correctness to career counseling to time management for builders. In cases published in various academic teaching journals or strategic management and business policy textbooks, students are often directed to use the SWOT analysis framework to profile an organization as they first begin to craft and defend new strategic alternatives. Outside the business setting, the framework can be used to evaluate any complex, personal decision.

Criticisms

The SWOT framework, with its vagueness, oversimplified methodology, and limitations, is often seen as a victim of its own success. SWOT analysis does not provide a sufficient context for adequate strategy optimization, and the simplicity may lead managers to use it incorrectly, producing short lists of nonprioritized, generalized bullet points. It is a good starting point, according to many managers, but it does not provide guidance on where new strategies will or should come from nor how to implement or achieve them.

The framework does simplify a complex internal and external environment into a shorter list of more manageable issues. Yet the reduction does require human judgment, which may vary and may not be comprehensive or parsimonious. The quantity and timeliness

of information used in preparing the SWOT analysis is as important as the variety and dependability of the various perspectives involved. These experts must also be involved in assessing the reliability of the data as they interpret the information provided. Top managers emphasize financial strengths, whereas middle and lower managers tend to focus on technical issues suggesting a high potential for differences related to the level of management conducting the analysis. Perceptions can also be influenced by culture, so it is important to have a diverse, multilevel group of internal and external stakeholders involved in the analysis.

The strengths may not lead to an advantage even though they are important to the firm. They may not provide a lasting advantage. Also, as environments change rapidly and life cycles of products and services continue to decrease, the environmental opportunities may be short-lived or may be too narrowly focused. Adequate benchmarking of competitors and the industry are also keys for a strong external analysis. Vetting and subjecting the findings to additional “due diligence” is needed to ensure that the information and the interpretation of the SWOT evidence is clear and appropriate. These processes can help reduce some of the subjective nature of SWOT analysis.

In addition, categorization of variables into one of the four SWOT quadrants is also challenging. Strengths that are not maintained may become weaknesses. Opportunities not taken, but adopted by competitors, may become threats. The differences between internal and external issues may be difficult to spot. Also, threats acted on quickly and effectively may be rally opportunities. Emerging technologies too have often not yet proved themselves as strength or a weakness.

Another potential problem with SWOT analysis is its circularity. We spot strengths because they allow organizations to capitalize on opportunities, and we identify opportunities by reflecting on an organization's strength.

SWOT is a moving target given the dynamic nature of strategy, and this may be only a situational analysis without a diagnostic capacity. SWOT is only one dimension of strategy and should also be combined with more innovative, creative brainstorming techniques to develop new products and services in new markets or market segments for long-term sustainability.

Alternatives for Improvements

Alternatives for SWOT include reorganized or repackaged lists of issues. In WOTSUP (weaknesses, opportunities, threats, and strengths, underlying planning), UP stands for “underlying planning” and in SOFT (strengths, opportunities, faults, threats), weaknesses have been re-identified as “faults.” Others are the TOWS (threats, opportunities, weaknesses, and strengths) strategic matrix and the VRIO (value, rarity, imitability, and organizational) [p. 815 ↓] framework (which identifies resources by value, rareness, immutability, and organizational characteristics to recognize competitive advantages). Goals Grid has categories labeled achieve, preserve, avoid, and eliminate. Yet each alternative is a repackaged list of issues.

Resource-based SWOT analysis focuses on systemic causal issues that afford more perceptive, reliable, and actionable insights. The resource-based view categorizes SWOT variables only after the business has been carefully examined for both defensive and offensive goals.

Without ranking or weighting, planners may assume each of the SWOT variables is equal in scope and importance. Current research suggests the use of a quantifiable SWOT method that adopts the concept of multiple-criteria decision making (MCDM) or a multihierarchy scheme to simplify complicated problems. The indices of SWOT are voted on and weighted to assess the competitive strategy, and the total weighted scores method is then used to identify the best strategic alternatives.

SWOT can easily be combined with a number of other strategic models and techniques to organize qualitative data. For example, SWOT is useful in analyzing the organizational environment while value chain analysis or strategic mapping helps managers understand the value-generating components of the core activities. The Boston Consulting Group product portfolio matrix can assist in identifying the nature of the products offered by the industry. SWOT can be combined with Robert S. Kaplan and David P. Norton's *balanced score card* as well as used in organizations pursuing quality function deployment (QFD) methodology or for identify critical successful strategic perspectives prior to using the Malcolm Baldrige National Quality Award criteria. Michael E. Porter's *five forces analysis* moves beyond the internal analysis to

focus on the organization's external environment, including the five competitive forces external to the organization. Porter's *diamond analysis* is also useful to shape strategy to reflect national strengths and weaknesses. Other complementary analyses include scenario analysis for exploring different futures, McKinsey's *Seven-S framework* to ensure that all parts of the internal organization work in harmony, Porter's generic strategies, for the best choice for competitive advantage, and benchmarking to compare performance against external competitors or industry leaders.

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See also

Further Readings

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