

SWOT ANALYSIS IN STRATEGIC MANAGEMENT

ABSTRACT

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. Environmental analysis is a critical part of the strategic management planning process. The SWOT (Strengths, Weaknesses, Opportunities, and 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.

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.



What is a SWOT Analysis?

SWOT analysis is a strategic planning technique used to help a person or organization identify strengths, weaknesses, opportunities, and threats related to business competition or project planning. It is intended to specify the objectives of the business venture or project and identify the internal and external factors that are favorable and unfavorable to achieving those objectives. Users of a SWOT analysis often ask and answer questions to generate meaningful information for each category to make the tool useful and identify their competitive advantage. SWOT has been described as the tried-and-true tool of strategic analysis.

Strengths and weakness are frequently internally-related, while opportunities and threats commonly focus on the external environment. The name is an acronym for the four parameters the technique examines:



1. **Strengths:** characteristics of the business or project that give it an advantage over others.
2. **Weaknesses:** characteristics of the business that place the business or project at a disadvantage relative to others.
3. **Opportunities:** elements in the environment that the business or project could exploit to its advantage.

4. **Threats:** elements in the environment that could cause trouble for the business or project.

The degree to which the internal environment of the firm matches with the external environment is expressed by the concept of strategic fit. Identification of SWOTs is important because they can inform later steps in planning to achieve the objective. First, decision-makers should consider whether the objective is attainable, given the SWOTs. If the objective is not attainable, they must select a different objective and repeat the process.

Importance of SWOT Analysis in Strategic Management:

The initial phase in the business administration SWOT analysis is recognizing key strengths of an organization. These strengths can incorporate a strong brand picture, a lot of working capital, a great status among consumers and even strong dissemination systems. Strength is fundamentally any benefit that an organization has over its real rivals. Nevertheless, companies ought to additionally break down the strengths of their rivals too, which gives a superior appraisal of how an organization can possibly get along in the marketplace.

SWOT analysis is not only concerned with making only four lists but it is much more than that.

The following points highlight its importance:

- SWOT Analysis brings to light whether the business is healthy or sick.
- An undertaking comes to know of both internal as well as external factors affecting its success or failure.
- It helps in the formation of a strategy so as to make preparations for the possible threats from the competitors.
- SWOT analysis evaluates the business environment in a detailed manner so as to take strategic decisions for the future course of action.

How to Do a SWOT Analysis?

SWOT analysis can be done by following ways:

1. **Determine the objective:** Decide on a key project or strategy to analyze and place it at the top of the page.
2. **Create a grid:** Draw a large square and then divide it into four smaller squares.
3. **Label each box:** Write the word "Strengths" inside the top left box, "Weaknesses" inside the top right box, "Opportunities" within the bottom left box, and "Threats" inside the bottom right box. These are titles, so they should be distinguished from the rest of the text using either color or font size. Smart Draw offers several SWOT diagram templates designed to make construction quick and easy.
4. **Add strengths and weaknesses:** Add factors that affect the project to the applicable boxes. Components of a SWOT analysis may be qualitative and anecdotal as well as quantitative and empirical in nature. Factors are typically listed in a bullet form.
5. **Draw conclusions:** Analyze the finished SWOT diagram. Be sure to note if the positive outcomes outweigh the negative. If they do, it may be a good decision to carry out the objective. If they do not, adjustments may need to be made, or else the plan should simply be wrong.

Who should do a SWOT analysis?

For a SWOT analysis to be effective, company founders and leaders need to be deeply involved. This isn't a task that can be delegated to others.

But, company leadership shouldn't do the work on their own either. For best results, you'll want to gather a group of people who have different perspectives on the company. Select people who can represent different aspects of your company, from sales and customer service to marketing and product development. Everyone should have a seat at the table.

Innovative companies even look outside their own internal ranks when they perform a SWOT analysis and get input from customers to add their unique voice to the mix.

If you're starting or running a business on your own, you can still do a SWOT analysis. Recruit additional points of view from friends who know a little about your business, your accountant, or even vendors and suppliers. The key is to have different points of view.

Existing businesses can use a SWOT analysis to assess their current situation and determine a strategy to move forward. But, remember that things are constantly changing and you'll want to reassess your strategy, starting with a new SWOT analysis every six to 12 months.

For startups, a SWOT analysis is part of the business planning process. It'll help codify a strategy so that you start off on the right foot and know the direction that you plan on going.

Questions that can help inspire SWOT analysis are as follows:

Here are a few questions that you can ask your team when you're building your SWOT analysis. These questions can help explain each section and spark creative thinking.

Strengths: Strengths are internal, positive attributes of your company. These are things that are within your control.

- What business processes are successful?
- What assets do you have in your team, such as knowledge, education, network, skills, and reputation?
- What physical assets do you have, such as customers, equipment, technology, cash, and patents?
- What competitive advantages do you have over your competition?

Weaknesses: Weaknesses are negative factors that detract from your strengths. These are things that you might need to improve on to be competitive.

- Are there things that your business needs to be competitive?
- What business processes need improvement?
- Are there tangible assets that your company needs, such as money or equipment?
- Are there gaps on your team?
- Is your location ideal for your success?

Opportunities: Opportunities are external factors in your business environment that are likely to contribute to your success.

- Is your market growing and are there trends that will encourage people to buy more of what you are selling?
- Are there upcoming events that your company may be able to take advantage of to grow the business?
- Are there upcoming changes to regulations that might impact your company positively?
- If your business is up and running, do customers think highly of you?

Threats: Threats are external factors that you have no control over. You may want to consider putting in place contingency plans for dealing them if they occur.

- Do you have potential competitors who may enter your market?
- Will suppliers always be able to supply the raw materials you need at the prices you need?
- Could future developments in technology change how you do business?
- Is consumer behavior changing in a way that could negatively impact your business?
- Are there market trends that could become a threat?

Example of a SWOT analysis

To get a better sense of what a SWOT example actually looks like, we're going to look at UPer Crust Pies, a specialty meat and fruit pie café in Michigan's Upper Peninsula. They sell hot, ready-to-go pies and frozen take-home options, as well as an assortment of fresh salads and beverages.

The company is planning to open its first location in downtown Yubetchatown and is very focused on developing a business model that will make it easy to expand quickly and that opens up the possibility of franchising. Here's what their SWOT analysis might look like:

SWOT analysis for UPer Crust Pies:



SWOT Use

First, decide how you will use the SWOT analysis. Use this type of analysis to evaluate employees, business models, projects or companies. It may also be used on a personal level to improve performance at work or other areas of your life.

- **Prepare a Chart:** Divide a piece of paper into four sections by dividing the paper in half both horizontally and vertically. Label each section: Strengths, Weaknesses, Opportunities and Threats.
- **Strengths:** Consider and list your strengths on the chart. If you are doing a business analysis this would include things such as patents, capital, and accreditation or other recognition and reputation, goodwill.
- **Weaknesses:** Next consider business weaknesses. On a business analysis this includes factors such as financial problems, non-financial problems, poor morale or a small, unprofitable customer base.

- **Opportunities:** Consider what opportunities are available or coming up. Business opportunities may include access to new technology, chances to implement new thoughts and ideas, new business promotion, new regulations opening up global trade or trends moving customers toward your business.

- **Threats:** Record any threats or things working against business. Threats to businesses include things such as a new competitor, losing a supplier or new or changing laws that may negatively impact your business, rapid change in supply and demand, loss of key supplier, rapid change in technology, loss of key employees, changes in accounting rules.

- **Internal Factors:** Now that you have a list of things affecting your business, analyze your internal factors or strengths and weaknesses. Determine how your strengths help you reach your goals and how you can use them most effectively. Then analyze what steps you can take to minimize or overcome your weaknesses.

- **External Factors:** Next analyze the opportunities and threats or external factors affecting you. Decide which opportunities would be best to pursue and create a plan to minimize or neutralize threats facing you on business level.

- **Planning:** Use your action steps and analysis of internal and external factors to determine the best direction for you or your business to take. Analyze internal and external factors together to decide how to best use your strengths to pursue the best opportunity available to you and to avoid threats.

- **TOWS:** Finally, look at your list of factors in each category in reverse order beginning with threats then moving on to opportunities, weaknesses and strengths. Analyzing negative aspects of threats and weaknesses before opportunities and strengths offers a different point of view and may make it easier to see how to turn threats into opportunities and weaknesses into strengths.

Advantages of SWOT Analysis:

- ❖ **Problem Domain:** SWOT analysis can be applied to an organization, organizational unit, individual or team. In addition, the analysis can support a number of project objectives. For example, the SWOT method can be used to evaluate a product or brand, an acquisition or partnership, or the outsourcing of a business function. In addition, SWOT analysis can be beneficial in evaluating a particular supply source, a business process, a product market or the implementation of a particular technology.
- ❖ **Application Neutrality:** SWOT analysis is conducted by specifying an objective and conducting a brainstorming session to identify internal and external factors that are favorable and unfavorable to the objective's achievement. This approach remains the same whether the analysis supports strategic planning, opportunity analysis, competitive analysis, business development or product development processes.
- ❖ **Multi-Level Analysis:** You can gain valuable information about your objective's chances by viewing each of the four elements of the SWOT analysis – strengths, weaknesses, opportunities and threats – independently or in combination. For example, identified threats in the business environment, such as new government regulations regarding a product design or the introduction of competing products, might alert the business owner that a proposed investment in a new manufacturing production line should be more carefully evaluated.

In addition, an awareness of a company weakness such as a lack of qualified employees might suggest a need to consider outsourcing particular functions.
- ❖ **Data Integration:** SWOT analysis requires the combination of quantitative and qualitative information from a number of sources. Access to a range of data from multiple sources improves enterprise-level planning and policy-making, enhances decision-making, improves communication and helps to coordinate operations.
- ❖ **Simplicity:** SWOT analysis requires neither technical skills nor training. Instead, it can be performed by anyone with knowledge about the business in question and the industry in which it operates. The process involves a facilitated brainstorming session during which the four dimensions of the SWOT analysis are discussed. As a result, individual participants' beliefs and judgments are aggregated into collective judgments endorsed by the group as a whole. In this way, the knowledge of each individual becomes the knowledge of the group.

Disadvantages of SWOT analysis:

- ❖ **Costs:** Because SWOT analysis requires neither technical skills nor training, a company can select a staff member to conduct the analysis rather than hire an external consultant. In addition, SWOT is a somewhat simple method that can be performed in a fairly short time.
- ❖ **No Weighting Factors:** SWOT analysis leads to four individual lists of strengths, weaknesses, opportunities and threats. However, the tool provides no mechanism to rank the significance of one factor versus another within any list. As a result, it's difficult to determine the amount of any one factor's true impact on the objective.
- ❖ **Ambiguity:** SWOT analysis creates a one-dimensional model which categorizes each problem attribute as a strength, weakness, opportunity or threat. As a result, each attribute appears to have only one influence on the problem being analyzed. However, one factor might be both a strength and a weakness. For example, locating a chain of stores on well-traveled streets that grant easy access to customers might be reflected in increased sales. However, the costs of operating high-visibility facilities can make it difficult to compete on price without a large sales volume.
- ❖ **Subjective Analysis:** To significantly impact company performance, business decisions must be based on reliable, relevant and comparable data. However, SWOT data collection and analysis entail a subjective process that reflects the bias of the individuals who collect the data and participate in the brainstorming session. In addition, the data input to the SWOT analysis can become outdated fairly quickly.

How to use SWOT analysis to formulate strategies?

Here's how:

Strengths–Opportunities: Use your internal strengths to take advantage of opportunities.

Strengths-Threats: Use your strengths to minimize threats.

Weaknesses-Opportunities: Improve weaknesses by taking advantage of opportunities.

Weaknesses-Threats: Work to eliminate weaknesses to avoid threats.

When should a SWOT analysis be performed?

When and how often should a business conduct SWOT analysis? Every business has different needs, but it is good to conduct a SWOT analysis at least once every 6 months, or whenever a significant decision is to be made for business or external factors are looming, that can impact business.

Organizations the uses of a SWOT analysis by a community organization are as follows: to organize information, provide insight into barriers that may be present while engaging in social change processes, and identify strengths available that can be activated to counteract these barriers.

A SWOT analysis can be used to:

- Explore new solutions to problems
- Identify barriers that will limit goals/objectives
- Decide on direction that will be most effective
- Reveal possibilities and limitations for change
- To revise plans to best navigate systems, communities, and
- As a brainstorming and recording device as a means of communication
- To enhance "credibility of interpretation" to be used in presentation to leaders

How does SWOT analysis help in decision making?

A SWOT analysis can help to identify opportunities that a business could take advantage of to make greater profits. Conducting a SWOT analysis will help to understand the internal factor (business's strengths and weaknesses) that will influence the ability to take advantage of a new opportunity.

The usefulness of SWOT analysis is not limited to profit-seeking organizations. SWOT analysis may be used in any decision-making situation when a desired end-state (objective) is defined. Examples include non- The profit organizations, governmental units, and individuals. SWOT analysis may also be used in pre-crisis planning and preventive crisis management. SWOT analysis may also be used in creating a recommendation during a viability survey.

Strategy building

SWOT analysis can be used effectively to build organizational or personal strategy. Steps necessary to execute strategy-oriented analysis involve identification of internal and external factors (using the popular 2x2 matrix), selection and evaluation of the most important factors, and identification of relations existing between internal and external features.

Matching and converting

One way of using SWOT is matching and converting. Matching is used to find competitive advantage by matching the strengths to opportunities. Another tactic is to convert weaknesses or threats into strengths or opportunities. An example of a conversion strategy is to find new markets. If the threats or weaknesses cannot be converted, a company should try to minimize or avoid them.

Corporate planning

As part of the development of strategies and plans to enable the organization to achieve its objectives that organization will use a systematic process known as corporate planning. SWOT can be used as a basis for the analysis of business and environmental factors.

CONCLUSION:

SWOT (strengths, weaknesses, opportunities, and threats) analysis is a framework used to evaluate a company's competitive position and to develop strategic planning. SWOT analysis assesses internal and external factors, as well as current and future potential.

When you take the time to do a SWOT analysis, you'll be armed with a solid strategy for prioritizing the work that you need to do to grow your business. SWOT analysis will force you to look at your business in new ways and from new directions. You'll look at your strengths and weaknesses, and how you can leverage those to take advantage of the opportunities. A SWOT analysis is an incredibly simple, yet powerful tool to help you develop your business strategy, whether you're building a startup or guiding an existing company.