

SWOT analysis

Introduction

Many organisations, when thinking about strategy or preparing business plans, undertake what is known as a SWOT analysis though, in reality, the 'SWOT' is a summary of a process of assessment, research and analysis. This covers strengths, weaknesses, opportunities and threats and, usually, the results are summarised into a grid as shown in the figure. Too often, however, the results are then ignored in developing the strategy or business plan. There may be a long list of strengths, but the plan might not clearly show how the organisation will build on those strengths; there may be a long list of weakness, but the plan might not explain clearly how the organisation will address the weaknesses. One business plan reviewed by the author noted in its SWOT analysis that the organisation was over-reliant on volunteers, yet went on to explain that achieving its strategic objectives required ever greater reliance on many more volunteers.

The purpose of a SWOT analysis

Typical SWOT analysis

Strengths	Weaknesses
Opportunities	Threats

Organisations undertake SWOT analyses to help them understand themselves and where they fit in the wider environment. The intention is to identify strengths – on which the organisation can build future success – and weaknesses, which need to be addressed if they are not to pull down the organisation. Organisations do not exist in isolation, however, but in an environment which may provide opportunities but is also likely to impose threats.

Strengths and weaknesses refer to the organisation itself – they can be determined by looking in at the organisation. Opportunities and threats largely arise from the external environment – so they require a systematic review of the environment in which the organisation operates. So undertaking a SWOT analysis which will really help the organisation

requires some effort – it does not just arise from a quick brainstorm in the office.

Looking in: strengths & weaknesses

If you are already in business, and particularly if you have been in business for some time, it may help to start by looking at how you got to where you are today. Think, for a moment, about defining moments in the history of your organisation. Have those defining moments lead to changes in purpose or in culture? Does your purpose or your culture reflect your 'core competences'?

You will need to think systematically about your strengths and weaknesses, so you may find it helpful to use a checklist. Here are a few thoughts to help you:

- Innovation: are you innovative? Do you spot opportunities and come up with new ideas to address them? Do you have systems in place to capture ideas and develop innovations? Do you have the rights to any intellectual property? Can you exploit (more effectively) your intellectual property?

- People: think about the knowledge, skills, attitudes of your staff. Do they provide strengths? Do you keep them up to date through regular staff development? Do you enhance organisational competence through your recruitment policies? Do you utilise your board effectively?
- Finance: do you have the resources that you need to achieve your objectives? What are your key sources of finance? Are you able to raise the finance that you need? Is your budget secure for the next year? For the next two?
- Marketing: all organisations, including not for profits, need to market in some way. What is your competitive edge – why do others want to benefit from your services? What alternatives do they have? Do you have competitors? Will they pay for the services? Do you seek feedback from your customers and do you use that feedback to improve your services?
- Operations: are your operations efficient and effective? How do you deliver your services? Is the method of delivery important to your customers?
- Resources: do you have the resources – human, physical, financial – required to deliver your services? Can you access more resources?
- Values, beliefs and behaviour: what are your values? Sustainability? Integrity? Respect? Do your values give you an edge? Do the people who use your services share your values? Would they be more likely to use your services if they did? What is your organisation's management style? Does the management style get the best from the staff; does it promote initiative and accountability? Does it promote an ethos of 'customer first'? When properly harnessed, shared values create what John Collins and Jerry Porras describe in their book, 'Built to Last', as "a sense of purpose beyond making money that guides and inspires people throughout the organisation".

All of the (serious) strengths and weaknesses should be recorded on a grid similar to that shown on page one though do not be too quick, at this stage, to dismiss possible strengths or weaknesses because you do not think that they are sufficiently serious.

Looking out: opportunities and threats

Looking solely at strengths and weaknesses will not give you enough information on which to base decisions. You also need to look at the environment in which your organisation is operating and the likely environment in which it might be operating in, say, five years' time. You need to learn as much as possible about, and be sensitive to the demands and constraints of, the environment. One way of doing this is to undertake a PEST analysis though this may go by another name such as PESTLE or STEEP which provides a framework to ensure that key topics are not forgotten. Not every question will apply to every organisation – and there are likely to be many more questions that could apply but are not listed. Rather, this is simply intended to get you started:

- Political: what is the government doing in relation to legislation and regulation, tax policy, employment legislation, environmental regulations, trade reform, corruption and other aspects of the enabling environment? Is there political stability? What is the government's policy towards the sector in which you operate? Is that changing? Or likely to change?
- Economic: what change is occurring within the economy? How is it changing? Is the economy growing? Is the number of jobs growing? What is happening to inflation rates, interest rates, exchange rates, wage rates, minimum wage, access to finance etc?
- Social: what changes are occurring in demography, education, popular aspirations etc? Is the population growing? Is the population aging? Are people becoming more environmentally aware? Are people becoming more health conscious? Are cultural expectations changing?

- Technological: we live in a time of rapid technological change. What changes do you expect to see in, say, the next two to three years that might affect your organisation, either by making redundant what you do or by making it easier to deliver your services. Can you make (better) use, for example, of mobile phone technology or the internet?
- Legal: what changes do you expect in legislation and regulation? Are there changes agreed but not yet implemented? Or in the pipeline, but not yet agreed? Or being lobbied for by other groups? What impact might those changes have, say, on employment, or access to raw materials, or on the ability of business to export etc?
- Environmental: what do you see happening in relation to the (green) environment? Is food security and nutrition an issue? What is happening with energy supplies and carbon emissions or access to water? Is pollution a problem? Is transport an issue?

Thinking about some of the questions is only the start. You need to decide who is going to gather the information and from where the information might be sourced. It is likely that this will need a team effort rather than being left to just one person. The information gathering may lead to further questions which also need to be researched.

Now use the information that you have gathered to help you to think specifically about the opportunities and threats facing your organisation and add them to your grid. As with the strengths and weaknesses, at this stage, you will want to err on the side of inclusion.

As well as looking externally for opportunities and threats, you need to look again within the organisation. Future strengths – for example, training the staff in specific aspects of information technology – may provide opportunities that you are not yet in a position to realise, though equally identifying an opportunity may highlight a weakness or potential weakness that needs to be addressed before you can exploit the opportunity. Similarly, future weaknesses may highlight potential threats.

For all the opportunities and threats, you ought to decide whether any are so important that they need to be monitored in the future.

Using SWOT results in the business planning process

It is important to be clear about your strategic objectives before you start your SWOT analysis. After all, the four areas all relate to your ability to achieve your objectives.

You should see undertaking a SWOT analysis as part of the process of business planning. In my view, the results should not be included, and certainly not as a section on its own, in the business plan. The SWOT review should be completed before you start to write a business plan. This requires that you consider whether any of the items in your grid are of such little importance that they can be removed. It may also be helpful, thinking through each of the quadrants in turn, to consider whether any of them influence your objectives and activities or whether you need to revisit them.

Then, as you write the plan, you can build on the strengths and opportunities. For example, 'we will build on our reputation for quality by launching a premium service to support exporters', or, 'we will launch a new service to meet the need for improved matching of customers and suppliers of road transport services'.

Importantly, you need to ensure that the organisation addresses the perceived weaknesses and threats. If the plan will be read by third parties, this has the advantage of not drawing attention to the fact that there may be weaknesses or threats. For example, the plan might say: 'systems of financial reporting will be improved over the next year with the introduction of monthly management

accounts', or, 'services to members will be improved through the launch of a group purchasing initiative'. In this way, areas that might have been seen as negatives can be turned into positives – and there is less danger of raising alarm bells in the mind of the reader and then not addressing them adequately.

By the time you have completed your plan, you need to have considered how you can build on each strength, how you can address each weakness, how you can exploit each opportunity and how you can mitigate each threat.

Advantages and disadvantages

► Advantages

A SWOT analysis is helpful because it imposes discipline but there are other ways of looking at business.

- It is very simple conceptually, with its four box grid;
- It facilitates understanding and insight;
- It supports strategic thinking;
- It encourages organisations to spot opportunities that might otherwise be missed;
- It stimulates organisations to anticipate threats and take action now to minimise their impact; and
- It is flexible.

► Disadvantages

Do not rely solely on a SWOT analysis: that may lead to failing to address imperatives – such as ensuring that there are clearly defined strategic objectives. Furthermore, there is a danger, already highlighted, of simply preparing lists and not thinking through the implications and priorities for the organisation.

- There is a danger of finding so much data that it becomes difficult to understand the implications, but also a danger of over-simplification;
- Finding the necessary data can be time consuming and difficult;
- The pace of change may increase the difficulty of anticipating developments, though broadening the research base may help to overcome this;
- Data may be based on assumptions that turn out to be wrong.

These disadvantages may make you question the value of SWOT analysis. Done effectively, it can be extremely valuable. The trick is to do it regularly, updating the data on which the analysis is based, which will help to mitigate the disadvantages described above and, if necessary, also updating your business plan. You also need to involve a team or people with different experiences in the process – because each will bring a different perspective.