

Revisiting SWOT Analysis: A Widely Misused Decision-making Tool

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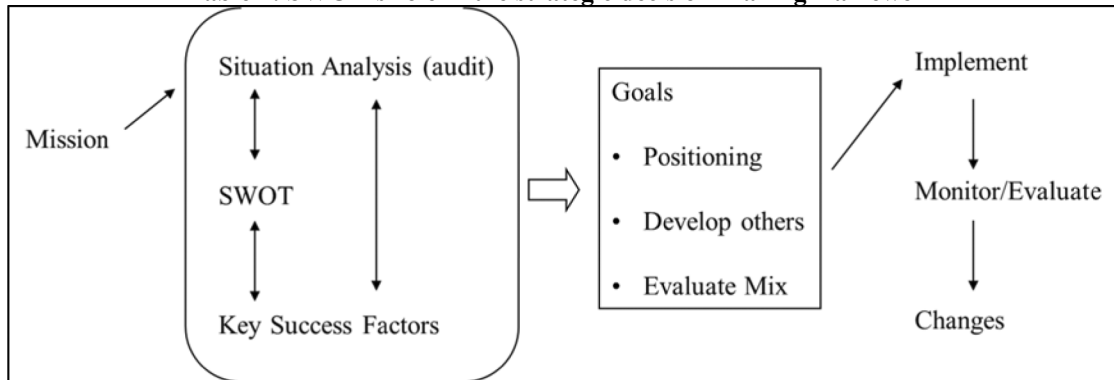
ABSTRACT

Subsumed within the larger strategy development framework, SWOT analysis is often used to help organizations focus their attention during the strategic planning process. Unfortunately, all too often this tool is used incorrectly, and thus, often provides little in the way of prescriptive insights upon which sound managerial decisions can be made. This paper outlines the basic SWOT process, explains how SWOT fits into the larger strategic decision framework, articulates some of the common mistakes associated with using the tool and suggest a more useful course that managers might take as they seek to chart the direction of their respective organizations.

INTRODUCTION

As companies go about developing a strategic plan, they often spend time conducting a situation analysis (see Table 1 for strategic process). At this step in the process, many companies fall into the "analysis paralysis" mode and flounder endlessly. Trying to determine where the company wants to be 2, 5, 10, 20 years down the road becomes quite challenging. Faced with such a time frame, managers are often left asking "how many potential opportunities and threats are likely pop up?"

Table 1: SWOT's role in the strategic decision-making framework



Many managers determine that the trick to not bogging down is to rely on long term business goals (which should generally be guided by the company's mission statement). While it is true that some firms develop fluffy, feel good mission statements that are not directive in any meaningful way (i.e., created to hang on the wall), many other firms put real thought into their mission statements and expect them to provide specific guidance concerning what the firm will and will not do (Alegre, Berbegal-Mirabent, Guerrero and Mas-Machuca, 2018; Williams, Morrell and Mullane, 2014). To some, the mission is like an umbrella – too big and unwieldy and any wind (i.e., change in the market, another in a never ending

series of opportunities, etc.) will blow the firm around in a manner that will ensure that it never gains any momentum in a particular direction. Likewise, if the umbrella (mission statement) is too small, it is essentially worthless and you get wet (i.e., not be able to stretch out a bit and grow when reasonable opportunities present themselves). As such, and as part of an effective SWOT analysis, a firm's leadership team should decide the "right" size and shape of the mission and then let it guide the organization (caveat - does not mean you can't change the mission/course of the company as you move into the future and the world changes around you!). In the end, this will help firm's focus on those opportunities that make the most sense (Pandya, 2017).

Once the mission is settled, a situation analysis is conducted to force the company to look at its past, the present and into the future. The past is usually relatively easy. Managers can perform an audit that will allow them to take a good long look at the organization and take stock of what the firm has or does not have (e.g., what is the caliber of your human assets, what are you really good at, etc.). After completing the audit, the SWOT comes next.

As suggested previously, the SWOT analysis is a much misunderstood and misused strategic tool. Most managers perform a SWOT by sitting down and immediately listing their perceived company strengths...all the things they think they do great. They then do the same for weaknesses. Only after that do they begin to think in terms of "what are the opportunities and threat we might face." This thinking leads to documentation that is basically useless (Phadermrod, Crowder and Wills, 2019; Sanne, 2019; Vlado, 2019). The SWOT is not a linear tool in which manager should first identify internal characteristics (i.e., strengths and weaknesses) and then unconnectedly identify external factors (i.e., opportunities and threats). A much more useful approach is to start with the external...first identify the opportunities and threats. Remember, the firm's mission (it might also help to think in terms of your long-term business goals) will help managers to limit their attention to those opportunities and threats that are truly relevant to the organization (for example, the Harley Davidson corporation can probably generate revenue making toasters...that does not mean however, the company should do so, especially when doing so will only serve to devalue their hard-earned brand positioning).

Only after compiling relevant opportunities and threats can managers look inside and classify internal characteristics (e.g., competencies, capabilities, etc.) as strengths or weaknesses. That is, managers first need the external context. This is the main point that tends to be missed by so many managers who attempt to incorporate SWOT analysis into their strategic planning processes. Such managers miss the fact that one can only define something as a strength or weakness with a given context. It therefore follows that an internal characteristic is also only a strength or weakness when you consider if it has any relevance to a specific opportunity or threat.

SCENARIO

A company has a sales force that consist of 50 very committed, well-trained sales people. The sales people are very good at what they do and quite motivated (how can this not be a strength?). Now, put this internal "asset" it into a context. When the economy got battered in early 2009 what happened to both consumer and business consumption? It dropped off in many sectors. Nobody could get credit, so buying dried up. With no one buying what does that mean for the 50 highly trained, highly motivated sales people? That is correct, it leaves the company with 50 hungry mouths to feed...and might mean layoffs! Long story short...to conduct a SWOT correctly managers need to look outside first (Opportunities and Threats), then with these contexts, managers can look inside (Strengths and Weaknesses).

Once a SWOT analysis is complete, managers are ready to move onto the third component of the situation analysis (i.e., identify key success factors - KSF). What is a key success factor? A factor that may lead to success if attended to, but that will most likely lead to failure if ignored. Lots of things contribute to an organization's success or failure. For example, what factors will contribute to the success of a brand new hotel? Price, location, amenities, restaurant, cleanliness, comfortable beds and pillows, bell hops to carry your bags, mint on your pillow at bed time, and on and on. Now, while all will help contribute to success, which are the most critical...those that the venture cannot survive without delivering at some basic level? Can these factors be prioritized? How? Are they all equal....what would happen if every factor mentioned above was delivered perfectly, however, a guest, upon entering the room for the first time saw a rodent in the bathroom? Kind of makes the great price, great location, and mint on the pillow good feelings pale a bit.

Two critical steps for not missing on the KSF's. First, the KSF's must flow from and be solidly linked to the SWOT analysis (e.g., if managers identify an opportunity, what are those factors that will lead to success or failure). Second, managers have to ask the market (i.e., customers) what they think is most important. Why? Because when asked what drives the customer decision-making process, manager typically answer from a position of unfounded certainty. Unfortunately, experience has soon that managers and customers are not always on the same page. Thus, the need to put in the effort and make certain that customer motivations are known. Doing so will help to ensure that firms have a higher probability of success of addressing those opportunities and threats most likely to impact the organization (positively and negatively).

CONCLUSION

Too often well-meaning managers charged with setting the strategic direction for the organization use SWOT analysis incorrectly and end up wasting time and resources on output that is neither accurate nor actionable. Treating SWOT as a linear tool in which strengths, weaknesses, opportunities and threats are listed independently of one another only serves to marginalize an otherwise useful analysis technique. A better way of conducting SWOT analysis is to look externally for opportunities and threats that align with an organization's mission statement and then evaluate internal characteristics within the context of the relevant external factors. By doing so, managers are more likely to end up with prescriptive, and defensible, insights that can lead to organization success.

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