

SWOT Analysis

Introduction to SWOT Analysis

SWOT analysis is a useful tool to examine the fit between a company's internal resources and capabilities and external possibilities. SWOT stands for strengths, weaknesses, opportunities and threats. Clearly, a company has more control over its internal aspects such as resources, culture, operating systems and staffing practices, which are generally under the control of the organisation's senior management. The external environment, over which senior management has a lesser control, covers such aspects as market demand, government policies, economic conditions, social, cultural and ethical developments, technological developments, and ecological developments. Overall, it can enable managers to better understand and respond to those issues which can have the greatest impact on a company's performance. Such issues are commonly known as strategic issues.

Pioneered in 1971 by Ken Andrews, it was claimed that such an analysis could "identify the best way for a company to use its strengths to exploit opportunities and to defend both its strengths and weaknesses against external threats." Used correctly, the analysis can be applied to many parts of a company, including products, divisions and services. It is a very popular technique due to its apparent simplicity of use. In reality, it is often poorly used and understood. It adopts the following questions that guide strategic choice:

1. What can we do? (Internal strengths and weaknesses)
2. What might we do? (External opportunities and threats)
3. What do we want to do? (Values of the organisation and its members)
4. What do others expect us to do? (Desires of stakeholders)

Further refinement leads to the following questions:

- 1 What resources and capabilities do we want to develop?
- 2 What opportunities can we develop?
- 3 What should we be caring about?
- 4 How can we build shared expectations among our stakeholders?

SWOT Analysis Process

Step 1 - List and evaluate SWOT elements. The first step is to identify and analyse the company's strengths (factors which make a company more competitive than its rivals), weaknesses (limitations within the company that can prevent it from attaining its goals), opportunities (relate to any favourable situation in the external environment which might assist the company in attaining its goals) and threats (unfavourable situations or trends which might damage the company's competitive position). In reality, the analysis often ceases at this point. However, the next steps are what really produces the strategic insights.

Step 2 - Analyse and rank strategic factors. Assign a 'score' to the different factors identified above. Use importance or magnitudes to rank them.

Step 3 - Identify strategic fit and develop a strategy to improve matches. This is the



most critical and difficult step. The organisation needs to identify the company's strategies with regard to its internal capabilities and external environment. The secret is to convert important weaknesses into strengths and threats into opportunities. Done correctly, the four quadrants shown below will emerge with the appropriate strategies.



SWOT Matrix

Whilst SWOT analysis is often ignored by managers, applied appropriately, it can be a very useful tool producing valuable insights.