Swatting SWOT

SWOT analysis is one of the best-known of all theoretical frameworks in management, but Adrian Haberberg thinks that it has outlived its usefulness.

Perhaps more than any other piece of management theory, the analysis of organisations' Strengths,Weaknesses, Opportunities and Threats has struck a chord with practising managers.

Simple to understand, and blessed with a catchy acronym, SWOT analysis is widely used as a tool for the evaluation of a firm's position. Managers believe it is useful – and research in both the UK and the USA has found that they also think of it as having a strong foundation in theory and empirical research.

In this, however, they are mistaken. Nobody really knows who invented SWOT analysis, though it was certainly being used by Harvard Business School academics during the 1960s.

There is no piece of underlying theory that shows how, by examining strengths, weaknesses, opportunities and threats, and only those four factors, we can arrive at a complete appraisal of an organisation's position. In fact, SWOT bears all the hallmarks of a gadget that someone sketched out on the back of an envelope one day, and that just caught on.

Some of the objections to it are practical:
the technique's seductive simplicity seems to lead people to use it sloppily, so that the results really are not that helpful.
There are also theoretical objections – in the light of what we have learnt about the nature of competitive advantage over the last thirty years, the four SWOT factors are no longer enough for an assessment of an organisation's position.

Terry Hill and Roy Westbrook looked at 20 SWOTs prepared by consultants for firms participating in the Department of Trade and Industry's Manufacturing Planning and Implementation initiative. Most had been blighted by the curse of the three-word bullet point. They consisted of long lists of short items like 'poor product quality' with no depth or precision – people did not say precisely which products, or which aspects of quality were the problem.

There was no evidence presented as to, say, why people believed that it was product quality rather than service quality was the problem, or how they knew that their quality was any worse than their competitors'.

Sometimes the same point would feature both as a strength and as a weakness – the 'value of contract with company X' as a strength, and 'reliance on company X' as a weakness. There would be no further evaluation of whether the positives outweighed the negatives, or of how the firm might resolve the dilemma without upsetting their key customer.

The problem with this kind of scattergun analysis is that it gives very little help to managers when they try to decide what to do next. And yet this is surely what SWOT (or its replacement) should be for – to help decide which issues need to be given priority,

and what are the really solid resources on which organisations can base their future strategy.

Apart from its built-in imprecision, SWOT analysis has other drawbacks, based on the way that our understanding of the world of competition has changed since it was developed. We now appreciate that strategy is a matter of trade-offs – firms choosing deliberately to disappoint some potential customers so that they are better able to satisfy others. SWOT analysis, with its black-and-white distinction between strengths and weaknesses, does not handle this kind of situation at all well.

For example, Amazon.com, the on-line bookseller, has targeted affluent, computer-literate bookworms. Its range and pricing structure are geared to people who like books, are prepared to buy them in quantity, like to interact with other book-lovers and don’t mind waiting a couple of days for delivery. It also offers other facilities to those who are prepared to pay its delivery charges: provision of unusual books quicker than they can be obtained from a high-street retailer, and an excellent search engine.

However, someone who wants one copy of a best-seller, today and at a low price is better served by Waterstones or Tesco. Does this mean that Amazon has a weakness in the best-seller segment? Perhaps - but given that the firm has chosen not to compete on Tesco’s terms, this is not a particularly useful point on which to focus. Yet SWOT invites us to list weaknesses without regard to their strategic importance..

Amazon also illustrates another problem with SWOT analysis – the need to come up with a list of strengths. After five years’ trading, it is still not clear whether Amazon has any enduring strengths - certainly it has gained a foothold in the market, but has only recently started to turn any profit from sellingbooks.

A SWOT analysis for Amazon.com would not be a great deal of use – and yet the company still needs a strategy. What it has done, of course, is to assess, as best it can, which of its (still unproven) strategic resources have some enduring value, and base its strategy upon them. It has used its reputation and its capabilities in on-line commerce and distribution to push into neighbouring product lines.

Most modern theorists agree that it is these intangible resources – capabilities, competences and reputation – that make the difference between a firm’s being a success and an also-ran.

Most people understand the importance of ‘core competences’ – skills that are rare, difficult to copy and make a real difference to customers. Less well appreciated, however, is the importance of lesser competences. Firms often gather a range of skills in fields, like instrumentation or materials technology, that are peripheral to their main business, but might just be the basis of something important in the future.

Here again, SWOT analysis comes up short. There is no place in it for technologies that have yet to prove themselves as strengths or weaknesses. By classifying a firm’s attributes baldly as strengths and weaknesses, and ignoring everything in between, we risk discarding important information about areas where its resources might be a source of advantage if they were only developed a little further. A firm can usefully direct its attention to other places than where it is definitely strong or definitely weak.

One final gap in SWOT’s radar relates to the dynamic aspects of strategy – the fact that every organisation’s strategy is an attempt to hit a target that is not just moving, but following a highly unpredictable path at an uncertain speed. Inside most successful

firms, subtle internal processes are at work to tempt them into investing effort and emotion in fine-tuning their proven existing competences and to postpone exploring newer and riskier ones. Outside it, a changing environment may be about to transform the value of their assets and capabilities.

For example, the best retail banks have invested a great deal in new capabilities to reduce the cost of running their branch network. Yet they cannot rely on them as a source of enduring advantage; these hard-won capabilities will count for little if, as many people predict, financial transactions increasingly happen in supermarkets or over the Internet.

Can Lloyds-TSB afford to run down its branch network before this change occurs? Can it afford to be left saddled with the excess costs if the transformation happens quicker than was planned? There is a threat built into every strength – and so, of course, an opportunity within every weakness. Yet in a typical SWOT analysis, all current strengths are equal, regardless of their robustness.

So, can SWOT analysis be rescued? Are these problems inherent within the technique, or just the result of its being used imprecisely?

The consultants whose work Hill and Westbrook reviewed in the DTI scheme, some of them from large international firms, made the exactly the same kinds of mistake in their SWOT analyses that raw undergraduate students do. This seems to show that a major part of the problem lies with the technique rather than the technician.

When SWOT was first popularised, the Beatles were high in the charts and skills in areas like marketing were relatively rare. Back then, a firm knew a strength when it saw one. In these post-modern times, things are far less clear-cut – though arguably more interesting – and competitive advantage is increasingly a matter of nuance. Firms jockey for position by trying to understand their customers' needs just a touch better than their competitors do, and providing a service that is slightly faster and better tailored to users' requirements.

SWOT analysis is fine for an initial classification of the issues when we are getting to know a company, a situation or a case study.

But this kind of back-of-the-envelope analysis is something we should keep to ourselves – it has no place in a final report or a major presentation to management. For a true appreciation of a strategic situation, as a basis for concrete strategic proposals, we need a far finer-grained assessment of the organisation's resources and their value in a changing world.

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http://www.sps.org.uk/Strategy/September%202000/swot_cart.jpg

Down with authoritarian strategists!

Strategic planning was meant to be a means for finding out how to improve things. It has become a weapon for authoritarian managers to use to impose their will on other people, says Anthony Rendell.

PRESS REPORTS tell us that there is a lot of strategic planning going on in some major organisations which nevertheless do not seem to perform much better. Perhaps the trouble is that the wrong people have taken control of strategy, and are using it for the wrong reasons.

Not all that many years ago, strategic planning was an interest shared by a small number of people. They were often unorthodox and inner-directed people, dissatisfied with the way things were, and curious about trying something apart from the mainstream of corporate life, in out of the way offices.

**Then it caught on. Consultants sold it, CEOs embraced it to appear forward looking, careerists saw opportunities, so it became the must-have accessory. From being an unconventional adventure it became the new orthodoxy and was swallowed by the establishment and bureaucratised. Strategy planners were awarded office suites and attendant analysts and scorekeepers. They claimed a monopoly of authority.
They gave their allegiance to the CEO rather than the organisation.**

People with authoritarian personalities are often quite good at getting themselves into positions of power. Once there, their characteristics make them unsuccessful as social leaders. They are enthusiasts for control. They do not like people very much, and often show dislike for the organisation they run, and try to do something to it rather than for it.

A new CEO marches into an organisation. He orders up a new strategy. Consultants oblige. It is imposed. It does not work very well, which does not matter, because the CEO will not be spending his life there. When his successor arrives, the cycle is repeated. Some people who found roles by embracing the recent strategy will now condemn it as enthusiastically as they welcome the new one, but although this might be good for them, the dramatic strategic switches are not healthy for the organisation.

Different interests are involved. The CEO wants to satisfy his authoritarian needs by making a mark, which involves bossing people around and changing their lives. Consultants need to make profits. Both expect to move on to other things and aim at impacts in the short term, which is not what strategy should be primarily about.

The unheard during all of this are the staff. They want to do their jobs, which includes making the organisation's key outputs. They have a genuine interest in improving things because that upgrades their working lives, and they take a longer view because they would like to stay.

When change is imposed from outside, staff react with suspicion. Increasingly, they have reason to see their senior managers as 'outside'. Some come from there. Others are in roles and offices far removed from the organisation's output. They pursue different career interests and have a different ethos.

Top down strategy often fails because the top people are too far from where the work is done to know how it is done. The staff 's knowledge and ideas are not wanted, because

they might disturb the symmetry of the new strategic change diagram. When staff start saying 'it's more complicated than that', it is taken by the changers to be the code words of a resistance movement.

Where strategy has been done from the bottom up, with carefully defined and limited guidance from the top, the results are better. The process is informed by people with up to date knowledge. They can learn the techniques of strategic planning quite easily. They can even, if necessary, prepare slides with diagrams and bullet points, although they naturally prefer prose as a better vehicle for expressing ideas.

This kind of internally generated strategic debate is most likely to be slow and messy. It takes time for management and staff to understand each other when they open lines of communication about major change. The people producing the output talk about the processes of doing the work, and the other kinds of work they could do, and the practical consequences of change in terms of doing that work. Managers, who are manipulating data of various kinds rather than making the output, have another language.

When staff have played a part in working out major changes they feel they have a stake in the results, and want to implement them.

They have also learnt how to do it better next time around. The organisation acquires new skills to use in continual renewal. This approach is resisted by authoritarian managers. They wish strategy formation to be seen as something very special which only top people can do. They wish to keep the right of imposing it on others.

Government was once seen in the same way, as the preserve of a top class, because ordinary people would only mess it up. It is strange that in a democracy we are citizens who can voice our opinions and influence government policies, but in office hours we are subject to authoritarian regimes.

We know that authoritarian regimes can impose their policies, but that they do not take root in the people's minds. Democracies waste a lot of time and energy, but they are more efficient and more creative, and less corrupt, as well as being more pleasant to work in.

Strategy formation should be democratised and used to improve things. It is too important to be left as a tool for authoritarian personalities to use to pursue their own ends.

One good sign is that some middle and lower managers who care about their work and their staff have learnt enough techniques to do strategy for their own units. They count senior managerial behaviour as one of the elements they must allow for in their planning. Strategy, in the sense of devising plans to make things work better at the local level, is being reborn in back rooms.

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