

# SWOT ANALYSIS

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## Abstract

SWOT analysis, which delves into a business' strengths, weaknesses, opportunities, and threats, is used widely in firms and classrooms to distill fragmentary facts and figures into concise depictions of the strategic landscape. Yet despite its popularity and longevity, the SWOT approach to situation assessment often is ineffective. This article begins with a brief critique of the SWOT framework and typical SWOT analysis guidelines. Thereafter, Defensive/Offensive Evaluation (DOE) is advanced as an effective alternative to SWOT analysis. Because DOE is more theory-driven, it poses keener questions and promises more illuminating answers.

**Keyword:** SWOT Analysis, Strategic Management, Research Method, Globalization

## Introduction

SWOT analysis entails portraying a business' internal context in terms of strengths and weaknesses and scouring its external context for opportunities and threats. It is meant to spark strategic insight and distill fragmentary facts and figures into coherent backdrops for strategic planning. Superior strategic insights are scarce intellectual assets that facilitate securing competitive advantages, while ignorance and strategic misconceptions often comprise costly deficits. SWOT analysis is used widely in firms and classrooms; frequently it is the centerpiece of situation assessment. However, despite its popularity and longevity, SWOT analysis yields banal or misleading results so frequently that Hill and Westbrook (1997) advised scrapping it. Troublesome implicit premises that underlie the SWOT framework and typical SWOT analysis guidelines are addressed briefly in this article. Thereafter, Defensive/Offensive Evaluation is advanced as a more systematic and more effective approach to situation assessment.

## The Trouble with SWOT Analysis

SWOT analysis has shallow theoretical roots. They run no deeper than the tenet that, like any living organism, a business can prosper only if it achieves a good fit between itself and its environment. Although this assertion is eminently plausible, SWOT analysis also rests on the rather shaky suppositions that every strategically significant feature of a business' internal and external context can be categorized neatly as favorable or unfavorable and such categorizing affords strategic insight. While neither the SWOT matrix, shown in Figure 1, nor its conceptual underpinnings shed light on how noteworthy particulars are to be identified nor classified correctly or how strategic implications are to be derived, supplemental guidelines abound. They usually are fortified with checklists, which enumerate myriad factors and forces that might affect a business.

Unfortunately, conventional SWOT guidelines offer little more than menus of assorted generic strengths, weaknesses, opportunities, and threats (SWOTs).

	Internal Factors	External Factors
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Favorable Factors	STRENGTHS	OPPORTUNITIES
Unfavorable Factors	WEAKNESSES	THREATS

- Typical SWOT guidelines promote superficial scanning and impromptu categorizing in lieu of methodical inquiry. They leave the false impression that noteworthy particulars can be spotted at a glance and their likely impact (favorable or unfavorable, major or minor) is obvious and independent of context. Hence, they prompt analysts to reflexively equate the likes of stricter impending regulations with threats and rapid market growth with opportunities. Yet, circumstances that threaten some contestants usually extend opportunities to others; and many apparent opportunities evaporate when examined in light of the competitive context. Thus, contrary to the intimations of prevalent SWOT guidelines, many features of a business' internal and external context are not intrinsically good or bad. Instead, strengths and weakness define and are defined by opportunities and threats. Strengths facilitate thwarting potential threats and realizing apparent opportunities, while weaknesses render a business vulnerable or incapable of creating adequate value for customers and shareholders.
- The SWOT framework does not readily accommodate tradeoffs. For example, does Southwest Airlines' lack of customary in-flight meals constitute strength or a weakness? From one vantage point, no meals puts Southwest at a disadvantage. However, serving meals would diminish Southwest's key advantage, low cost. Aside from raising out-of-pocket cost, it would increase opportunity cost because more time would be used to service planes, leaving less revenue-generating flying time (Porter 1996). Clearly, Southwest's no-meals policy is too important to ignore. Yet, debating which SWOT quadrant pinches least or whether no meals might be a weakness that, paradoxically, underlies a strength wastes time better spent diagnosing and articulating the complex effects of no meals on competitive advantage and customer value. Moreover, categorizing Southwest's dearth of customary amenities as weaknesses while listing effects (lower costs) among strengths is confusing and beclouds that "rectifying" the apparent "weaknesses" would diminish corresponding strengths. In sum, tradeoffs and their consequences are among various strategically significant phenomena that are complex, dynamic, and systemic. They seldom can be depicted effectively by simplistic, static, taxonomic schemata, such as SWOT matrices.
- SWOT guidelines commonly muddle accomplishments and strengths. For instance, market-share leadership is an accomplishment listed as strength in checklist. Calling it strength may seem apt because frontrunners must be doing something right; studies have shown direct correlations between market share and earnings; and advantages rooted in network externalities and scale and experience economies are contingent on market-share leadership. Nevertheless, reflexively equating market-share leadership with competitive advantage or strength is imprudent because the implied causal relationship between volume and advantage may no longer exist or may never have existed. When market-share leadership, early entry, or other accomplishments do seem to underlie current advantages, then the specific advantages should be enumerated (e.g., cost leadership) and their sources noted (e.g., superior scale economies and bargaining power derived from market share).

- SWOT guidelines generally lack criteria for prioritizing SWOTs. Hence, items are listed as if all were equally important, and critical matters often are obscured by clutter.

The preceding list comprises only a partial inventory of shortcomings that commonly plague SWOT analyses and SWOT guidelines. Better instructions could mitigate some flaws. But as Hill and Westbrook (1997) intimated, improving situation assessment markedly entails replacing SWOT analysis, not merely refining it. The proposed replacement – Defensive/ Offensive Evaluation – reflects the aims of systems analysis, rather than taxonomy, and provides analysts with a better sense of what to look for when surveying the strategic landscape and pondering the internal-external nexus.

### **Defensive/Offensive Evaluation: An Advanced Framework for Situation Assessment**

Defensive/Offensive Evaluation (DOE) centers on a business' core strategic objectives:

1. the defensive objective of protecting claimed product-market turf and the profit potential it affords and
2. The offensive objective of securing additional profitable turf. Of course, the best defense sometimes is an aggressive offense. And as long as scale economies, experience, or network externalities afford market-share leaders significant competitive advantages, growth may be a defensive imperative rather than an offensive option.

### **Conclusion**

Situation assessment is apt to be more illuminating when emphasis is shifted from categorizing to gaining systemic understanding. Yet, taxonomic SWOT analysis will prevail as long as it is mistakenly deemed the essence of situation assessment. Analysts who prefer the SWOT structure for reporting purposes will discover that most DOE results can be placed under familiar SWOT rubrics. However, even when such reporting is possible without oversimplifying or obscuring causal relationships, the DOE investigative process is apt to yield better results than SWOT analysis because DOE ensures that meticulous scrutiny precedes classification and that classification is not mistaken for the ultimate objective, namely gaining strategic insight and systemic understanding.

### **References**

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