
10 SWOT Analysis

10.1 INTRODUCTION

Currently, most organizations engage strategic planning techniques for helping them to monitor allocation of the resources in the best possible way to achieve optimum productivity. SWOT analysis is such a strategic planning technique.

It is generally used at the initial stage of a project to identify the areas where the project can do well, or where it may need improvement. The technique is also used retrospectively for identifying the positive and negative aspects of an ongoing project *vis-à-vis* what has been achieved in reality. SWOT is an acronym for the following four parameters:

- **Strengths:** attributes of a project that give it an advantage over other projects.
- **Weaknesses:** attributes of the project that place it at a disadvantage relative to other projects.
- **Opportunities:** elements in the surrounding setting that the project can exploit to its advantage.
- **Threats:** elements in the surrounding setting that could be harmful for the project.

Strength and weaknesses relate to internal factor within the organization and its products or services, whereas opportunities and threats relate to external factors over which the organization has little control. SWOT analysis helps the stakeholders to understand the internal strengths and weaknesses of a project or business as well as to identify the opportunities and threats in the marketplace.

SWOT analysis emerged as an aid for strategic planning in the 1950s and has been a very popular technique since then. The technique is primarily used for acquiring information, based on which the strategy can be developed.

10.2 TEAM EFFORT

SWOT analysis requires a team effort. A group of analysts should participate in the discussions or brainstorming sessions. It is necessary that the analysts should have an insight about the organization and its business environment. Preferably, their expertise and backgrounds should be different.

On completion of SWOT analysis, the team's recommendations should be effectively utilized in the strategic planning process.

10.3 PRESENTATION OF SWOT ANALYSIS

For undertaking SWOT analysis of a project, the strengths, weaknesses, opportunities and threats are normally listed on the same page. The page is segmented into

TABLE 10.1
SWOT Analysis format

	Positive/Helpful Aspects	Negative/Harmful Aspects
Internal Factors	Strengths	Weaknesses
External Factors	Opportunities	Threats

four rectangles, and strengths and weaknesses are entered in the top rectangles and opportunities and threats in the bottom rectangles. Table 10.1 illustrates a SWOT analysis format with four elements in a 2×2 matrix. It may be noted that internal factors are listed in the top row, while external factors are listed in the bottom row. Also, the positive (helpful) aspects are in the first column, while the negative (harmful) aspects are in the second column.

10.4 INTERNAL FACTORS: STRENGTHS AND WEAKNESSES

Strength relates to a productive and advantageous attribute that adds value to something and makes it comparatively more exclusive than something else. Thus, strength is a positive, favorable and advantageous characteristic. At the organizational level, strength involves ability by which an organization gains advantage over its competitors. Weakness relates to a condition in which the competence necessary for accomplishing something is not enough or totally absent. Weakness is thus a negative and unfavorable characteristic. At the organizational level, weakness implies inability of the organization to overcome its deficiencies. Thus, organizational weakness comprises the aspects or activities in which the organization is less capable and less proficient in comparison with its competitors. These are negative aspects that weaken the performance of the organization, and lead to its inability to respond to the possible problems or opportunities, and to adapt to changes. It is important for an organization to be aware of its weaknesses, as these have the potential to lead it to incompetence and futility.

Areas that are normally identified as strengths and weaknesses are outlined below:

- a. *Human resource*: this is the fountainhead of strength for any organization. It comprises the staff, the managers, board members as well as target population. Their knowledge, expertise, experience, etc. can be used to the organization's advantages. Thus, the human resources development policy is very important for the organization.
- b. *Physical infrastructure*: the physical infrastructure, such as the land and its location, building, machinery and equipment, is an area of strength or weakness of the organization. If the size of the infrastructure is large, the organization may be able to venture into certain projects which its competitors would not even think of. The converse is also true.
- c. *Financial resources*: availability of finance is an important feature of strength for any organization and is an advantage over its competitors. It provides opportunities to expand the organization's activities by way of

entering into new markets and new customers as well as launching new products in these areas.

A strong cash flow is also a potential strength from financial perspective. On the contrary, lack of cash may result in business failure. Strong cash flow also allows the organization to provide extended credit to its customers and better terms to its suppliers. These could be considered as competitive strengths.

- d. *Distinctive expertise*: the organization may have as its strength, some distinctive expertise on a particular process or activity. Such expertise is often defined as the core competence of the organization. Examples are departmental hierarchies and software systems employed.
- e. *Image*: the other source of competitive advantage is the image of the organization or the product in the marketplace, i.e., what the customer believes to be useful. A powerful image is important for any organization or product for negotiating with other organization for partnerships or entering into a fresh market. The goodwill created by the image may also attract high-quality human resources to the organization.
- f. *Client experience*: clients' experience with an organization encompasses its different sections, such as sales, marketing, delivery, customer service, after-sales service and accounts. These areas provide chances of interaction between the clients and the organization. Positive interaction creates a positive reputation in the marketplace and enhances customer satisfaction leading to profitability.

10.5 EXTERNAL FACTORS: OPPORTUNITIES AND THREATS

Development of strategic planning process depends largely on certain factors which are external to the organization. These external issues will also affect an organization in the same competitive marketplace as the internal factors discussed in the earlier section. Analysis of the external environment will relate to the opportunities and threats that the planning process has to go through. These are briefly outlined below:

- a. *Political factor: Government policies*: government policies on various issues, such as taxation and employment legislation, have considerable impact on the working of an organization. Increasing globalization of international markets has enhanced harmonization between countries. Consequently, political change or unrest in one country may have far-reaching effect on other countries too. It becomes imperative for organizations of one country to develop their strategy in compliance with the political developments in other countries also.
- b. *Economic scenario*: direction of strategic policies of any organization depends largely on the domestic economy of the country. Domestic economy influences the customer demand. With recent trend of globalization of world markets, however, a country's domestic economic scenario can change with the change in the economic scenario of another country. It is therefore becoming

necessary for organizations to develop flexibility in their strategy in order to respond to external situations on which they do not have direct control.

- c. *Changes in technology*: change in technology is an ongoing process. In recent decades, impact of technological innovation as well as emergence of new technologies has led to far-reaching changes in most organizations. Of late, improvements in technologies have become an instrument of radical change, to the advantage of the customers as well as to internal operations of the organizations. In order to respond to the unpredictable advancement in technology, it has become important for organizations to be more flexible in order to seize any opportunity for future development.
- d. *Social and cultural environment*: changes in social and cultural environment of a society occur rather gradually and take considerable time. Nevertheless, these changes influence an organization's strategy all the same. Technological advancement during the last decades of the 20th century, in particular in the field of digital technology, has considerable impact on the social and cultural environment. Many organizations have taken advantage of this advancement in projecting their products to prospective customers via social networks across the digital media.
- e. *Competition*: characteristic features and ambit in the market environment have distinct impact on the strategic direction of an organization. It is therefore imperative that an organization should analyze its position in this respect and approach appropriately its prospective customers in order to wean them off from the competitors.

10.6 SWOT ANALYSIS PROCESS

SWOT analysis can be conducted as an individual exercise. However, better results can be achieved if this is carried out by a group of analysts whose backgrounds differ. It is best conducted in a group in a brainstorming session in which team members are responsible for decision making and strategic planning of the organization. In such a case, participants can offer different perspectives based on their different experiences on the strengths and weaknesses of the process. Likewise, participants may also report about opportunities and threats, which are also important for developing the strategy.

In practice, SWOT analysis process is the same irrespective of whether this is done for future planning of specific products, work or any other area. The various steps for the analysis are as follows:

- Step 1: Constitute a group of analysts with diverse expertise and backgrounds.
- Step 2: Identify and list all strengths, weaknesses, opportunities and threats related to the alternative decisions being examined.
- Step 3: Summarize the results for each alternative in a four-cell SWOT format.

These results need to be reviewed based on which strategy for action is taken. A typical example of SWOT analysis for a product is shown in Table 10.2.

TABLE 10.2
Typical example of SWOT Analysis

Strengths	Weaknesses
Satisfactory quality	High price
Robust in construction	Lack of fund
Variety of sizes available	
Product designed by specialists in the field	
Opportunities	Threat
Good prospect in emerging global market	Negligible growth in traditional market segment
Development of other products	Products with cheaper raw materials by competitors

10.7 REVIEWING SWOT ANALYSIS RESULTS

SWOT analysis results will provide a clear image of the external as well as internal issues which have considerable influence on the organization's future. Based on these results, the strategy for action needs to be chosen in order to reduce organizational weaknesses and guard against external threats. Additionally, external opportunities are to be exploited effectively. The directional output of SWOT analysis will have immense influence on the strategy of the organization in different issues.

10.8 ADVANTAGES OF SWOT ANALYSIS

SWOT analysis is a popular model for making decisions by individuals or organizations. Characteristics that can be considered as advantages include the following:

- SWOT analysis has a general perspective and thus presents general and broad solutions. It is a technique that satisfactorily performs macro-evaluations;
- SWOT focuses on both positive and negative aspects of the internal and external settings of an organization;
- SWOT analysis method is simple and straightforward and inexpensive;
- SWOT analysis helps organizations to discover the external opportunities to their advantage and eliminates the internal threats;
- SWOT analysis by an organization's competitors can help in formulating strategies to the advantage of the analyzing organizations (competitors);
- SWOT analysis is normally conducted in group discussion (brainstorming sessions) and promotes pool of knowledge;
- SWOT analysis forms a thinking model comprising information collection and its interpretation for arriving at strategic decisions;
- SWOT analysis encourages management to adopt a futuristic approach in preference to current situation and problems;
- SWOT analysis enjoys a broad perspective and can be applied at various levels, e.g., individual level, organizational level, national level as well as international level. It can be usefully utilized by various organizations, governments, project authorities, etc. to their advantage.

10.9 LIMITATIONS OF SWOT ANALYSIS

Although SWOT analysis is one of the most widely used techniques for strategic management process, it has its limitations too. These limitations are briefly discussed in the following paragraphs:

- SWOT analysis deals primarily with current scenario in respect of strengths, weaknesses, opportunities and threats. Therefore, it needs to be re-done for ascertaining the strategy for a period other than the present;
- An item can be strength for one issue, but may be threat for another issue inside the same organization. Also, opportunity not availed by one organization may be taken up by its competitors and becomes a threat to the former. Additionally, if an organization is obsessed with a single strength, such as cost control, it may ignore its other weaknesses, such as in quality assurance plan (QAP) and human relationship development policy. Thus, classification and posting of variables into one of the four quadrants of SWOT analysis format is not a fool-proof operation. It may lead to misrepresentation of the internal and external issues;
- Compared to the benefits, the SWOT procedure by assembling a group of experts and carrying out brainstorming sessions is time-consuming for participating officials. It has thus high cost, but fewer benefits;
- SWOT analysis does not provide any quantitative guideline regarding the size of the competitive gaps between an organization and its competitors.

The above-mentioned limitations indicate that SWOT analysis provides only a direction for further in-depth strategic analysis. It is thus not an end in itself and only raises awareness about important issues.

10.10 APPLICATIONS OF SWOT ANALYSIS

SWOT analysis may be applied in any decision-making situation in order to achieve a desired objective. It can be used in a government department, a nongovernment organization or even in individual setups.

- SWOT analysis can be used to examine the currently prevailing scenario of the operations in an organization – whether it is performing satisfactorily or needs improvement;
- Timely SWOT analysis can show the ways for better utilization of the strengths of the organization and improve upon the weaknesses. Thus, it is useful for making strategic decisions for future planning or preventive crisis management;
- SWOT analysis is useful in prioritizing the actions for any improvement that may be required in an organization;
- SWOT analysis can also be used for personal development, career improvement or an individual's problem solving;

- It is often necessary to analyze the competitor's strength, weaknesses, etc., in order to ascertain their relative competitive status. It is useful to focus on the different aspects of the competitor's cost structures, resources, experiences, expertise, etc. It will be useful to collect information about these aspects.

10.11 CONCLUDING REMARKS

SWOT analysis provides a panoramic view of the strengths, weaknesses, opportunities and threats in respect of a concept or endeavors that an organization or an individual intends to promote or undertake. It is a very useful method for planning and decision making. While a number of other methods of analysis do exist for attaining long-term objectives in an organization, SWOT method has been very popular. It is a simple method for analyzing internal and external surroundings for making strategic decisions in respect of an industry, an organization, an individual, a project, a product, etc.

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