SWOT Analysis

Organizational strategies are the means through which companies accomplish their missions and goals. Successful strategies address four elements of the setting within which the company operates: (1) the company's strengths (S), (2) its weaknesses (W), (3) the opportunities in its competitive environment (O), and (4) the threats in its competitive environment (T). This set of four elements—strengths,

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weaknesses, opportunities, and threats—when used by a firm to gain competitive advantage, is often referred to as a SWOT analysis. SWOT was developed by Kenneth Andrews in the early 1970s, and it continues to be used with only minor modification and development into the twenty-first century. In 2008, the Harvard Business School Press published two digital guides to performing SWOT analysis, and investment analysts regularly publish guides that perform a SWOT analysis on a wide variety of corporations and financial institutions.

An assessment of strengths and weaknesses occurs as a part of organizational analysis. It is an audit of the company's internal workings, which are relatively easier to control than outside factors. Conversely, examining opportunities and threats is a part of environmental analysis—the company must look outside of the organization to determine opportunities and threats, over which it has lesser control.

Andrews's original conception of the strategy model that preceded the SWOT asked four basic questions about a company and its environment: (1) What can we do? (2) What do we want to do? (3) What might we do? and (4) What do others expect us to do?

The answers to these questions provide the input for an effective strategic management process. While Andrews' original conception of this analysis has been developed and changed to the more streamlined SWOT analysis that is known today, his work is the foundation of this activity.

STRENGTHS, WEAKNESSES, OPPORTUNITIES, AND THREATS

Strengths, in the SWOT analysis, are a company's capabilities and resources that allow it to engage in activities to generate economic value and perhaps competitive advantage. A company's strengths may be in its ability to create unique products, to provide high-level customer service, or to have a presence in multiple retail markets. Strengths may also be things such as the company's culture, its staffing and training, or the quality of its managers. Whatever capability a company has can be regarded as a strength.

A company's weaknesses are a lack of resources or capabilities that can prevent it from generating economic value or gaining a competitive advantage if used to enact the company's strategy. There are many examples of organizational weaknesses. For example, a firm may have a large, bureaucratic structure that limits its ability to compete with smaller, more dynamic companies. Another weakness may occur if a company has higher labor costs than a competitor who can have similar productivity from a lower labor cost. The characteristics of an organization that can be a strength, as listed above, can also be a weakness if the company does not do them well.

Opportunities provide the organization with a chance to improve its performance and its competitive advantage. Some opportunities may be anticipated, others arise unexpectedly. Opportunities may arise when there are niches for new products or services, or when these products and services can be offered at different times and in different locations. For instance, the increased use of the Internet has provided numerous opportunities for companies to expand their product sales.

Threats can be an individual, group, or organization outside the company that aims to reduce the level of the company's performance. Every company faces threats in its environment. Often the more successful companies have stronger threats, because there is a desire on the part of other companies to take some of that success for their own. Threats may come from new products or services from other companies that aim to take away a company's competitive advantage. Threats may also come from government regulation or even consumer groups.

A strong company strategy that shows how to gain competitive advantage should address all four elements of the SWOT analysis. It should help the organization determine how to use its strengths to take advantage of opportunities and neutralize threats. Finally, a strong strategy should help an organization avoid or fix its weaknesses. If a company can develop a strategy that makes use of the information from SWOT analysis, it is more likely to have high levels of performance.

Nearly every company can benefit from SWOT analysis. Larger organizations may have strategic-planning procedures in place that incorporate SWOT analysis, but smaller firms (particularly entrepreneurial firms) may have to start the analysis from scratch. Additionally, depending on the size or the degree of diversification of the company, it may be necessary to conduct more than one SWOT analysis. If the company has a wide variety of products and services, particularly if it operates in different markets, one SWOT analysis will not capture all of the relevant strengths, weaknesses, opportunities, and threats that exist across the span of the company's operations.

LIMITATIONS OF SWOT ANALYSIS

One major problem with the SWOT analysis is that while it emphasizes the importance of the four elements associated with the organizational and environmental analysis, it does not address how the company can identify those elements within itself. Many organizational executives may not be able to determine what these elements are, and the SWOT framework provides no guidance. For example, what if a strength identified by the company is not truly a strength? While a company might believe its customer service is strong, it may be unaware of problems with employees or the capabilities of other companies to

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**Figure 1**

provide a higher level of customer service. Weaknesses are often easier to determine, but typically after it is too late to create a new strategy to offset them. A company may also have difficulty identifying opportunities. Depending on the organization, what may seem like an opportunity to some may appear to be a threat to others. Opportunities may be easy to overlook or may be identified long after they can be exploited. Similarly, a company may have difficulty anticipating possible threats in order to effectively deal with them.

While the SWOT framework does not provide managers with the guidance to identify strengths, weaknesses, opportunities, and threats, it does tell them what questions to ask during the strategy development process. Managers know they must determine a strategy that will take advantage of a company's strengths, minimize its weaknesses, exploit opportunities, or neutralize threats.

Some experts argue that making strategic choices for the firm is less important than asking the right questions in choosing the strategy. A company may think it has solved a problem whereas in fact it may only have provided the correct answer to the wrong question.

USING SWOT ANALYSIS TO DEVELOP ORGANIZATIONAL STRATEGY

SWOT analysis is just the first step in developing and implementing an effective organizational strategy. After a thorough SWOT analysis, the next step is to rank the strengths, weaknesses, opportunities, and threats and to document the criteria for ranking. The company must then determine its strategic fit given its internal capabilities and external environment in a two-by-two grid (see [Figure 1](https://go.gale.com/ps/i.do?p=GVRL&u=uphoenix&id=GALE|CX4016600292&v=2.1&it=r&sid=GVRL&asid=ee5ae011#fig_01) ). This fit, as determined in the grid, will indicate what strategic changes need to be made. The quadrants in this grid are as follows:

* *Quadrant 1*—internal strengths matched with external opportunities
* *Quadrant 2*—internal weaknesses relative to external opportunities
* *Quadrant 3*—internal strengths matched with external threats
* *Quadrant 4*—internal weaknesses relative to external threats

*Quadrant 1* lists the strategies associated with a match between the company's strengths and its perceived external opportunities. It represents the best fit between the company's resources and the options available in the external market. A strategy from this quadrant would be to protect the company's strengths by shoring up resources and extending competitive advantage. If a strategy in this quadrant can additionally bolster weaknesses in other areas, such as in Quadrant 2, this would be advantageous.

*Quadrant 2* lists the strategies associated with a match between the company's weaknesses with external opportunities. Strategies in this quadrant would address the choice of either improving upon weaknesses to turn them into strengths, or allowing competitors to take advantage of opportunities in the marketplace.

*Quadrant 3* matches the company's strengths and external threats. Strategies in this quadrant may aim to transform external threats into opportunities by changing the company's competitive position through use of its resources or strengths. Another strategic option in this quadrant is for the company to maintain a defensive strategy to focus on more promising opportunities in other quadrants.

*Quadrant 4* matches a company's weaknesses and the threats in the environment. These are the worst possible scenarios for an organization. However, because of the competitive nature of the marketplace, any company is likely to have information in this quadrant. Strategies in this quadrant may involve using resources in other quadrants to exploit opportunities to the point that other threats are minimized. Additionally, some issues may be moved out of this quadrant by otherwise neutralizing the threat or by bolstering a perceived weakness.

Once a strategy is decided on in each quadrant for the issues facing the company, these strategies require frequent monitoring and periodic updates. An organization is best

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served by proactively determining strategies to address issues before they become crises.

An example of how a firm can develop strategies using these quadrants is as follows. Generic Corporation produces high-quality, high-priced specialty kitchen items in a catalog and in stores and is known for its excellent customer service. This strength has been able to offset its major weaknesses, which are having few stores and no current capabilities for Internet sales. Its major opportunities come from the explosion of Internet shopping, and its threats are other more high-profile competitors, operating primarily on the Internet, and the concerns of identity theft in Internet sales that many customers have. Matching Generic's strengths to its opportunities (Quadrant 1), the firm may choose to enhance its Internet site to allow online purchases, still providing its excellent 24-hour telephone customer service. Ideally, this strategy will offset the weakness of not having an Internet presence, which addresses the concerns of Quadrant 2. Additionally, by bolstering the strength of excellent customer service by applying it to the online shopping site, the company may be able to alleviate customer concerns about identity theft (Quadrant 3). A strategy for Quadrant 4, which matches the company's weaknesses and threats, is that Generic may consider selling its online business to a competitor. Certainly, the Quadrant 4 strategy is the least preferred, but a proactive strategy that plans for managing such a situation is favored over a crisis situation in which the company is forced to sell with no planning.

SWOT ANALYSIS IN OTHER FIELDS

SWOT analysis has such a wide range of applicability that it can be used in virtually any context. As Lawrence Fine noted in his 2009 book, *The SWOT Analysis*, “Many people wrongly assume a SWOT analysis is only relevent for businesses, but it can be invaluable for individuals, organizations, and even team building.” A quick survey of both popular and scholarly articles from 2010 and beyond with the term “SWOT Analysis” in the title yields such results as “The SWOT Strategic Planning of Quantitative Analysis for Service Robot Development in Taiwan,” “Strategic SWOT Analysis of Public, Private and Not-for-Profit Festival Organisations,” “An Application of SWOT-AHP to Develop A Strategic Planning for a Tourist Destination,” and “A SWOT Analysis of the Protecting Pedestrians on the Move Project.” As a business tool, SWOT analysis is a first but critical step in developing an organizational strategy. Examining a company's internal capabilities (its strengths and weaknesses), and external environment (its opportunities and threats), helps to create strategies that can proactively contend with organizational challenges.

**SEE ALSO** [*Strategic Planning*](https://go.gale.com/ps/retrieve.do?tabID=&userGroupName=uphoenix&inPS=true&prodId=GVRL&contentSet=GALE&docId=GALE|CX4016600283)*;*[*Strategy Formulation*](https://go.gale.com/ps/retrieve.do?tabID=&userGroupName=uphoenix&inPS=true&prodId=GVRL&contentSet=GALE&docId=GALE|CX4016600284).

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