UNIT 6 SWOT ANALYSIS

Objectives

After reading this unit you should become familiar with the :

- Meaning of organization strengths and weaknesses.
- Bases for classifying situations and characeristics into strengths and weaknesses.
- Procedures for evaluating the impact of organization's strengths and weaknesses..
- Meaning of Synergy.

Structure

6.1 INTRODUCTION

You will recall that in our discussions on environmental opportunities and threats unit 2 we had introduced the concept of relevant environment. We had mentioned that a firm's relevant environment to a large extent, is a function of organization's strengths and weaknesses. In other words the opportunities which can be successfully exploited largely depend upon corporate capabilities. You should, therefore, begin to realise the pivotal role which capabilities play in strategic success, organizations capabilities, in this sense, become a lynchpin over which hinges the performance and survival of a firm. But identifying and exploiting the strengths and removing the weaknesses is not an arithmetic game of additions and subtractions. It is much beyond the quantifiable numbers like sales, profits, net worth and assets. It is an issue largely linked with one's state of mind and outlook. Yes, it is a matter of entrepreneurial inrerpretation, For example, to a large majority of people huge population may be a major weakness of India, but to a few may be a major asset i.e. its strength. In this unit we will make attempts to approach the subject enabling a better perspective on and an entrepreneurial view of organization's strengths and weaknesses, Even at the cost of repetition, it may be a good idea to remember that strategy is ultimately a 'matching game' between environmental opponunities and organizational strengths to gain competitive advantage. The process of assessing organizational strengths and weaknesses is also known as 'organizational audit'.

6.2 SWOT ANALYSIS

If you are ready to start developing a strategic plan, you must first attempt to see where your organization is at present. There are various ways in which you can do this, and all of these just give you tools to understand yourself and recognize the challenges you face from the outside. One such tool is the SWOT analyses.

SWOT analyses are undertaken by organizations at the start of their strategic planning - and SWOT stands for Strengths, Weaknesses, Opportunities and Threats.

A SWOT starts with another exercise- an external analysis of the business environment, often called a PEST analysis. PEST stands for Political, Economic, Socio-cultural and Technological aspects. So you can see this exercise will give you a good grasp of the kind of outside situation you are in.

We have already studied PESTLE Analysis in Unit 2 of this block. Just to get an overview, of PEST analysis (also sometimes called as STEP, PESTLE or STEEP analysis) looks at the external business environment. As we have seen, PEST stands for political, economic. socio-cultural and technological factors and the extra Land E stand for legal and Environmental aspects which are very important for NGO communities, The analysis examines the impact of each of these factors (and their interplay with each other) on the business. The results can then be used to take advantage of opportunities and to make contingency plans for threats.

SWOT Analysis

SWOT Analysis builds on the results of the PESTLE analysis. Its purpose is to identify and build on the organization's strengths and weaknesses. It also serves to identify opportunities and threats from external factors - especially those that have an impact on the company's strengths and weaknesses.

A good approach for carrying out a SWOT analysis is to get your team together. Give them a few sheets of paper and ask them to list strengths, weaknesses, opportunities and threats under each of these headings. Use each item to help you fulfill your goals rather than discourage you into stepping back.

Discuss all the SWOT items and highlight key areas of concern or areas that require action. These become the focus for correctives for immediate action as well as areas of focus for future planning. Since we have discussed the external environment here we will restict ourselves in studying the internal environment.

6.3 MEANING OF STRENGTHS AND WEAKNESSES

Organization's strengths and weaknesses, as stated earlier, are a matter of interpretation. Thus, a large cash reserve may appear to be a strength for a firm, but if it is not invested well it may cease to be a strength. Similarly, absence of own fleet of cars may be taken as a weakness, but if cars are freely available at economical rentals it may cease to be a a weakness. Though, no definition may ever be complete, we would define strengths and weaknesses as follows:

Organizations' Strength: It refers to competitive advantages and other distinct competencies which a company can exert in the market place.

Organizations' Weakness: It refers to constraints or obstacles which check movement in certain desired direction, and may also inhibit organization in gaining a distinctive competitive advantage.

6.4 CRITERIA FOR DETERMINING STRENGTHS AND WEAKNESSES

A major problem which must be resolved prior to any analysis of organizations capabilities is the criteria that would determine whether element under examination is a strength or a weakness. Earlier we had mentioned that to a large extent it is 'state of mind' which, determines whether a particular element or situation is a strength or a weakness. Judgment, in this sense, is an implicit ingredient in our analysis. However, this judgment, as you will appreciate, is also a function of the criteria which is used. Four types of criteria have been suggested to classify an element into strength or weakness. These are:i) historical; ii) normative; iii) competition parity; and iv) critical factors for success.

The Historical Criterion

Here, the analyst compares the characteristics under examination with past performances.

Thus, sales, profits after tax, capacity utilisation etc. may be compared with those of the past. An improvement over the past performance may be seen as a strength, and a decline, a weakness. Before, arriving at such conclusions, it is always advisable to check the replicability of the 'past' in future. In a large number of situations 'past' may not be valid for future and this would certainly invalidate our assessment or judgment.

The Normative Criterion

Here, the basis of judgment is 'what ought to be' the level of performance to classify a particular element into a strength or a weakness. Thus, based on theory, expert opinion, industry practices or personal opinions, one can develop 'norms' for evaluation. For example 80% capacity utilisation for thermal power plants may be considered a strength and below that, a weakness.

The Competition Parity Criterion

As its basis for judgment, this criterion utilises the action of successful direct competitors or potential competitors. It is based on the premise that a firm must, at the minimum, meet the actions of the competitors. This, if the industry practice of providing 60 days credit to the trade is not followed, it may be considered a weakness. As a comparative yardstick, it is always desirable to know and compare with what other competitors are doing, but it may or may not be prudent to limit the assessment to only this criterion. At times, industry practices may not be optimum and as such not generalisable for all the firms as the product market, scopes may vary amongst the members. Besides, the competition criterion, it is always advisable to identify the dimensions of uniquenesses and use other criteria to classify a particular situation either as a strength or a weakness.

The Critical Factors for Success Criterion

Each organizations in some sense, is unique. It requires a set of minimum performance standards and hence capabilities. We would call these as 'critical factors' or 'key factors' of success. The three criteria discussed earlier in this section do not directly assess along the KFS. This criterion helps to examine the strengths and weakness in the context of meeting the minimum requirements for success. For example, if T. V, advertising is a must and an organization is not able to afford it, then it may be considered a weakness.

One criterion is seldom sufficient for a complete evaluation of a firm. Some elements like 'financial strengths' may be evaluated better on 'historical' and 'competition' criteria; and 'marketing' may be best evaluated on the basis of 'competition' and 'critical factors for success criteria'. Likewise, 'managerial climate' may be better ascertained on a 'normative criterion'. To cover all the facets of organizations capabilities and weaknesses, it may be desirable to follow a 'multiple criteria method'. It is important to recall that to a large extent- your assessment of strength or weakness of a flntl, depends on the criterion you have selection evaluate and your frame of mind.

Activity 1

1. Identify an NGO you are familiar with.

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2. List all elements you consider as its important strengths or weakness.

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3. In terms of various criteria (historical, normative, competition parity, and factors for success), evaluate its strengths and weaknesses.

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4. Suggest some corrective actions based on your assessment.

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6.5 MEASURING STRENGTHS AND WEAKNESSES

Strengths and weaknesses may exist in varying degrees. Some may view an organization as very strong which others may consider it not that strong. The same may apply to its weaknesses. This would call for measurement of strengths and weaknesses. In earlier section we had discussed various criteria for assessment. In this section, we will discuss the techniques which an analyst can apply to judge the degree of a strength or a weakness. There are three 'measures': i) Attribute Measures, ii) Effectiveness Measures, and iii) Efficiency Measures.

Attribute Measures

This statement is developed to identify or list a characteristic or quality which an organization possesses or is expected to possess in the near future. Some examples of attribute measurements are: 'our key strength is the high morale of the workers' or 'our bigger weakness is the lack of centralisation of the control systems'. Statements like these reflect the presence of a characteristic without attaching a unit of measurement, i.e. to what extent the strength is genuinely contributing to gain a competitive advantage. It might be a strength for strength sake with no substantial purpose behind it. Thus, leaving the analysis only at the 'attribute statement' level may be incomplete and inadequate. In many situations it may however, be the only alternative to express one's strengths or weaknesses.

Effectiveness Measures

In this approach, a characteristic is represented by a statement that identifies a capability of an organization that will help in the accomplishment of a particular task or objective. Thus, a statement like "our company exercises for fitness plan have helped in maintaining the high energy levels of our managers who are now able to devote one more additional hour of work each day" is reflective of an effectiveness measure of a strength. Similarly, a statement of weakness could be "the location of our plant entails more travel time to reach the market place, hence it dissuades our sales people to achieve their targets for field visits".

The Efficiency Measures

As the word 'efficiency' suggests, it measures the productivity of an organization in converting inputs into desired outputs. Thus, "ten per cent rejection rates is a big loss to our production", is a statement of weakness hinting at poor quality control arrangements. Apparently efficiency measure is implementable only in quantifiable situations.

The use of three types of the measurements is a function of the degree of specificity possible for a given element or characteristic. Attribute measurement is simply a listing of the capabilities of an organization; an effectiveness measure relates to the abilities of an organization to achieve objectives; and an efficiency measure is concerned with the optimum conversion of firm's resources into desired output. The type of measurement a firm would employ will be a function of (a) the characteristic (in terms of strengths or weaknesses) which is being measured and (b) the level within the organization which is to utilize the measurement. In many situations, especially when dealing with softer variables like 'shared values', 'managerial climate and culture', 'depth of mangerial competence' 'human relationship skills' etc., it may be difficult to use effectiveness and efficiency measures. Only attribute measures are used in such situations. You would soon begin to realise that at lower levels i.e. at the functional levels like, marketing, finance, etc. efficiency and effectiveness measures can be usefully applied. However, at higher levels which is concerned with the total organization, attribute measures and effectiveness measures are more feasible. To put it differently, attribute and effectiveness measures increase in importance as the scope of internal analysis is broadened to meet the demands of the higher management.

6.6 ALTERNATIVE FORMATS TO ANALYSE STRENGTHS AND WEAKNESSES

A comprehensive and objective analysis of strengths and weaknesses may be facilitated by use of a format or a framework. In this section we will study a few of such formats or frameworks.

The Check List

Some writers have suggested the use of organizational checklists to evaluate organizationl capabilities and weaknesses. One such checklist contains 446 checkpoints. Obviously, all 446 checkpoints may not be relevant for a particular organization. Pearce and Robinson suggest the following checklist.

Marketing

- Firm's products/services; breadth of product line.
- Ability to gather needed information about markets.
- Market share or submarket shares.

- Product/service mix and expansion potential; life cycle of key products; profit/ sales balance in produce/service.
- Channels of distribution.
- Effective sales organization; knowledge of customer needs.
- Concentration of sales in a few products or to a few customers.
- Product/service image reputation, and quality.
- Imaginative, efficient, and effective sales promotion and advertising. .
- Pricing strategy.
- Producers for digesting market feedback and developing new products/service or markets.
- After sales service and follow-up.
- Goodwill/ brand loyalty.

Finance and Accounting

- Ability to raise short-term capital.
- Ability to raise long-term capital, debt, equity.
- Corporate-level resources (multibusiness firm).
- Cost of Capital relative to industry and competitors.
- Tax considerations.
- Relations with owners, investors, and stockholders.
- Leverage position: Capacity to utilise alternative financial strategies such as lease or sale and leaseback.
- Cost of entry and barriers to entry.
- Presence of financial planning and budgeting practices.
- Working capital.
- Effective cost control; ability to reduce cost.
- Financial size.
- Efficient and effective accounting system for cost, budget and profit planning.

Production/Operations/Technical

- Raw material cost and availability.
- Inventory control systems.
- Location of facilities.
- Layout and utilisation of facilities.
- Technical efficiency of facilities and utilisation of capacity.
- Effective use of subcontracting.
- Degree of vertical integration: value added and profit margin.

- Efficiency and cost/benefits of equipment.
- Effective operation control procedures: design, scheduling, purchasing, quality control and efficiency.
- Costs and technological competencies relative to industry and competitors.
- Research and development/technology/innovation.
- Patent, trademarks, and similar legal protection.

Personnel

- Management personnel.
- Employees' skill and morale.
- Labour relations/costs compared to industry and competition.
- Efficient and effective personnel policies.
- Effective use of incentives to motivate performance.
- Ability to level peaks and valleys of employment.
- Employee turnover and absenteeism.
- Specialised skills.
- Experience.

Organization/General Management

- Organizational structure.
- Firm's image and prestige.
- Firm's record for achieving objectives.
- Organization communication system.
- Overall organizational control system effectiveness and utilisation.
- Organizational climate.
- Use of systematic procedures and techniques in decision making.
- Top management skill, capabilities and interest.

The Conceptual Approach

Bates and Eldredge have suggested what has been described as conceptual approach to analyse strengths and weaknesses. According to them, the format for analysis can be divided into three dimensions: management, operations, and finance. These three dimensions would be common for a majority of the organizations. 'Management' dimension covers top management functions and broader issues encompassing the total organization. Some of these could be strategic planning processes and systems, organization climate and culture managerial succession, top management values, etc. 'Operations' dimension includes resource conversion and distribution functions like production, material management design, marketing, etc. 'Finances' include issues like capital structure, working capital, credit policies, etc:

Analysis of Management Dimension

At the corporate level, i.e. at the level of corporate strategy, the strategist must begin the assessment of organizational strengths and weaknesses with an analysis of organizations management. To a large extent, the quality of top management determines and affects corporate strengths and we;akness, not only the current but the 'potential' strengths as well. As an illustration, Bates and Eldredge have suggested the following dimensions to evaluate the strategic planning system of a firm. This can be applied in case of NGOs.

Critical Factors: Identification of the present and future conditions having a bearing on the achievement of objectives.

Resources: Identification and provision for resources required to meet present and future conditions for achieving objectives.

Objectives: Clearly spelt out results and details of the means to be used to measure accomplishment.

Appraisal: Compairing actual with expected performance that results in timely corrective action.

Deployment of Resources: Establishing and delegating areas of responsibility and authority for critical factors. For its strategic planning system, an organization's strengths and weaknesses can be evaluated on the above dimensions.

Analysis of 'Financial' Dimension

An organizations performance is largely determined through its financial performance like sales revenue, profits, net worth, dividend payout, etc. A number of dimensions within finance capital structure, capital budgeting, dividend policy, debt policy, interest cost, credit policies, management of working capital etc., need to be examined to assess a firm's strengths and weaknesses. A caution, however, needs to be observed while drawing inferences 'financial analysis' may reflect only the 'symptoms' and not the causes. For strategic decisions, we need to unfold the underlying causes and their relationship with other business function. Thus, an outstanding receivable account with 90 days may reflect poorly on the working capital management, but if it is a marketing necessity, then it may not be interpreted as a weakness.

Analysis of the 'Operations' Dimensions

The resource conversion process requires operational arrangements. The efficiency of the 'conversion' process reflects strengths or weaknesses. Besides conversion, the organization also needs to transform the products and services through the process of marketing and distribution into liquid or cash resources which are then recycled. Organizational audit, therefore, must include the assessment of organizations strengths and weaknesses in each functional area. In the area of marketing, this may mean assessment of factors like familiarity with the industry breadth of the products/services offered, quality of the marketing research, customer care and after sales service, consumer loyalty, etc. A similar type of 'audit' can be done for human resources, materials management production and so on.

Strengths and Weaknesses Profile

After the corporate audit on three dimensions: management, finance, and operation has been done. Bates and Eldredge suggest consolidation of all these dimensions to develop a profile. This is shown in Exhibit 6.1

Dimension	Basis of Comparison[3]	Ranking[1]	Existing[2]	Strengths or weaknesses[4]
Management Financial Operation				

1. The purpose is to ensure that the strategist is aware of a basis of comparison and its appropriateness to the factor under assessment.
2. Ranking indicates degree of importance of the factor under assessment to the organization's success. All critical factors should have a ranking of in their respective dimensions.
3. A brief description of what exists.
4. Strengths or weaknesses are coded as follows: 0 = neutral; + = strength, and the more pluses, the greater the strength; – = weakness and the more minuses, the greater the weakness. The profile gives a quick view of the total situation as well as the criteria which an analyst has used to arrive at conclusions. By ranking, it also helps in focusing attention on more important rather than less important factors.

Exhibit 6.1: Strengths and Weaknesses Profile

* A grid analysis which takes into account the measures' mentioned earlier is shown in exhibit 6.2. This is developed for a hypothetical organization. You will observe that the grid highlights a number of weaknesses and a limited number of strengths for the organization as a whole.

The Grid Approach

MAJOR FUNCTIONS

ATTRIBUTES				MAJOR FUNCTIONS			
	Marketing	Human Resources	Finance	Mfg.	Systems	Stretegy	Organizational Structure
Efficieny and Effectiveness	Avg.	Good for the present	Poor	Poor	Good for the present	Avg.	Poor to Avg.
Stability and	Avg. to good Flexibility	Average	Poor	Yet to be estab-	No comments	Average	No comments
Future Development and Directions	Avg. to Good Needs re-examination	Needs improvement	Needs top most Priority	Needs consolidation at this stage	Needs to be formalised	This concept needs to be introduced	Needs reorganisation

Exhibit 6.2: The Grid

Activity 2

Apply the gird shown in exhibit 6.2 for an NGO.

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6.7 IDENTIFYING STRENGTHS AND WEAKNESSES

So far our major preoccupation has been with 'what' are strengths and weaknesses and 'how' they have to be measured. An equally important step in the whole exercise of organizational audit is the process which an analyst can follow to identify, diagnose, and assess the situation in the form of strengths and weaknesses. Basically, there are three approaches to performing the 'organizational audit'.

i) **Ask questions:** This is some form of executive survey. It can involve the respondents from both within organization and from outside; those who are well familiar with the organization e.g. customers, and suppliers are two such examples of outside respondents, There can be many forms to this survey like structured questionnaire, informal depth interviews and so on.

ii) **Observation:** Here the analyst observes the behaviour and reaction of the executives to draw his own inferences on some specific situations. Issues like leadership styles, work culture, participation are best studied by observation.

iii) **Examine Records:** Records are an excellent source of past performance and a number of other issues which are seldom articulated in a 'questionnaire survey' or observations. Usually, examination of records becomes essential for all the 'characteristics' where 'efficiency measures' are being used.

A good and comprehensive audit would require the use of all the three approaches. This requires enormous amount of information and efforts. At the corporate level especially for large organizations, this may require a 'team effort' and may take 6 to 8 months before a review of organization's strengths and weaknesses can be complete. A major pre-requisite for the analysis would be the 'breadth' and the 'depth' of their experience and an ability to 'muddle' through a vast pool of information, opinions and reactions.

6.8 MATCHING STRENGTHS AND WEAKNESSES

We have been discussing organizational strengths and weaknesses. The purpose is to arrive at a 'match' between organizational strengths and environmental opportunities for competitive advantage. The purpose is to improve corporate performance. A simple but powerful question to keep us on the right track, lest the exercise become unwieldy and an end in itself is to ask: 'so what'? This 'so what'? question should lead us to recognise the payoff from a strength. It should also enable us to identify the degree of damage or hinderance which a weakness can cause to organization's performance. If the response to a 'so what'? question is neutral or inconclusive, then the characteristics have to be dropped from our analysis. The organization audit of organization revealed a supplier's excellent reputation for consistency in the supply of high quality products. However, its limited production capacity, prevented it from becoming a market leader in terms of market share. It will, therefore, be a strategic error to assume that expansion may lead to a larger market share as large markets may essentially be for low price, low quality products. Thus, an excellent strength may have limited to no payoff unless the entire organizations strategy is changed. Similarly, presence of highly qualified scientists and engineers for R & D may become meaningless if there is no opportunity for R & D to flourish and make worthwhile contribution. In short, a strength is meaningless if it cannot abet in the organizations performance of present and future. In the same way presence of a weakness may not always be damaging.

6.9 THE CONCEPT OF SYNERGY

Upto this point we have been discussing the issues related to organization audit. Before we conclude it may be a good idea to briefly introduce the concept of synergy. In its simple form, the concept of synergy recognises that in the organizational context, the combined effect of certain parts is greater than the sum of their individual effects. For instance, if produced separately, the contribution of product A may be x and product B's contribution may be y. The concept of synergy, implies that if produced jointly, their contribution may be x + y + z instead of x + y alone. This extra contribution i.e. 'z' is called the synergistic effect of A and B together. Thus 'z' represents positive synergy. There can be negative synergy also. Some writers describe synergy as a 2 + 2 = 5 effect. This concept, which is difficult to quantify, is a very helpful concept in identifying what we would like to call 'potential strengths'. Thus, the 'reputation'of a firm can provide positive synergestic pay off to launch high quality products. Image, R & D facilities, availability of competent professionals are some more examples where an organization can reap synergistic benefits for competitive advantage.

6.10 SUMMARY

The analysis of organizations capabilities and weaknesses becomes a pre-requisite for successful formulation and reformulation of organization strategies. This analysis can be done at various levels: functional, divisional, and corporate. The classification of an item or characteristic in terms of strength and weakness can be done on the basis of some criteria like historical criterion, normative criterion, competitive parity criterion and the critical factor of success criterion. In order to measure the degree of strength or weakness, we can use three measures: attribute measures, effectiveness measures and efficiency measures. A format like a 'checklist', a grid or a matrix helps in making a comprehensive analysis. It also helps in consolidating the analysis on corporate audit. While performing the audit, it is important to remember that in the ultimate analysis, it is the entrepreneurial viewpoint of strengths and weaknesses which can make or break a company. In this view, the concept of synergy holds the key to enhance the payoffs from the existing corporate capabilities. A strong mind, even with limited capabilities, may build a giant organization and a weak mind may cripple a sound organization by magnifying the minor weaknesses. The frame of mind, thus, may appear to be a more important intangible strength than all the tangible assets.

6.11 SELF-ASSESSMENT QUESTIONS

1. How would you determine whether a particular element is a strength or a weakness?
2. What are the different criteria for classifying elements into strengths and weaknesses? Explain briefly by giving suitable examples. Are different criteria exclusive?
3. What measures can be used for judging the degree of a particular strength or a weakness? Are they equally applicable in all situations?
4. If you were to conduct organization audit of an NGO firm, what approaches would you use? Discuss briefly.
5. The purpose of analysing organizations strengths and weaknesses is to ultimately match them Explain.
6. Explain the concept of synergy. Drawing upon your organizational experience, recall situations/decisions in which the synergy came into play or it played a major part.

6.12 FURTHER READINGS

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