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Company analysis: determining strategic capability

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- *Assessing corporate strengths and weaknesses was seen as a critical step in much of the early literature on strategy, such as Ansoff (1965). In his thinking it was bound up with capability profiles, the search for synergy and the internal and external appraisals.*
- *As the knowledge of strategic management has expanded and the methods and techniques available have increased, there has been a tendency to ignore the importance of analysing the organization.*

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Introduction

If you were to select a modern textbook on strategy the chances are that you would find a few paragraphs on SWOT (Strengths, Weaknesses, Opportunities and Threats) and not much else under the heading of analysing strengths and weaknesses. Later you may find chapters on methods, which are the analysis of strengths and weaknesses in disguise such as, for example, core competencies. But somehow they are seen as something totally different. There is an exception in my own textbook (Hussey, 1998) and there may be others that are different from the common mould, although I have yet to come across them.

If we look for books that deal specifically with analysing an organization to ascertain its strengths and weaknesses, what is available? The landmark book for me was Drucker (1964), which I still use. There were some early articles that stressed the analytical aspects, such as Hussey (1968). Then there seems to have been something of a sea change.

Much of the guidance offered in various books and journal articles has either changed the meaning of SWOT or focused on an element of the overall appraisal. For example, Cooper and Kaplan are associated with activity-based costing, which takes Drucker's comments on apportioned costs a few stages further (see, for example, Cooper, 1990; Cooper and Kaplan 1991; Kaplan and Cooper, 1998). Most books on marketing deal at some length with assessing the competitive situation in the market, just as numerous books on finance show how to undertake a financial analysis of an organization. Elsewhere we can find references to auditing the information system (e.g. Stanat, 1990), or HRM (e.g. Hussey, 1996). There are plenty of jewels lying around the literature but not many attempts to thread them together to fashion something of greater utility.

SWOT has tended to become an exercise in asking the managers what they think, which in many organizations is unsupported by any analytical approach. To summarize

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what SWOT is now seen as I have turned to an encyclopedia of strategic management (Channon, 1997, p. 263) calls it . . . *a simple but powerful tool for evaluating the strategic position of a firm.* He argues that . . . *the requirements for undertaking such an analysis are relatively simple.* He outlines the process to be used:

> *In terms of usage, executives may be divided into groups to initially identify — first as individuals and second as groups — their views on the firm's SWOT.*

My experience is that although many organizations incorporate some form of SWOT exercise into the strategy-formulation process, they rarely get to the heart of what really matters. The extensive SWOT exercise carried out by some close variant of the method described by Channon has little impact on the strategic decisions that are actually taken. So the first premise of this article is that a more analytical and integrated approach would be beneficial.

The second premise is that organizations (and, dare I say, those who teach strategy) should realize that many fashionable techniques, like value chain analysis, industry analysis and competencies, are no more than a part of the overall process of assessing strengths and weaknesses. The facet they illuminate may be very important, but none of them is complete by itself. I believe that what has become the traditional SWOT method has also led its users to see strengths and weaknesses as absolutes. At the outset I should make a plea that we should see them in something less than black and white terms.

By way of an example, let us begin on the tennis court. I am a million miles away from playing tennis to the standard of Tim Henman and I am several decades older than he is. Are these weaknesses? It needs little explanation to see that my competence would only be a weakness if my personal vision and strategy were to become a world-class tennis player. In fact my total tennis ambitions are to be able to hire a public court in our local park, five or six times a year, to match my skills against those of other members of my family. The fact that I do not have much skill at tennis is not a weakness and it does not limit me from doing what I want to do. The same can be said for age. So the first point to make is that weaknesses and strengths generally only make sense when they are relative to something. There may be a few exceptions where the weakness is overpowering, such as a company sliding rapidly into bankruptcy but for the most part a strength or weakness has to be seen in context.

That context may be:

- The vision and strategy of the organization (something of a circular relationship as strengths and weaknesses should also influence the vision and strategy)
- Customer expectations
- What competitors are doing
- World-class performers
- Environmental trends
- Shareholder expectations

A second point flows from the first. If strengths and weaknesses are situational, perhaps we should see the terms somewhat differently. I prefer to think of them as limiting and enabling factors. A weakness limits our ability to perform strategically the way we should, unless we do something about it. In some situations a weakness may be fatal, in others it may force a rethink of strategy or be a drag on performance. A strength enables us to maintain our present level of performance and may be a springboard for greater things.

Wots UP with SWOT?

The best allusions never have to be explained but I fear that this heading will not stand

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by itself and I should hate to be criticized for my spelling. There is a lot wrong with the SWOT approach as commonly practised that I will explain in this section. SWOT stands for strength, weakness, opportunity, threat and many authors have made their contribution to the subject by trying to invent a better mnemonic. WOTS UP comes from Steiner (1979). The first four letters need no explanation, the last two stood for 'underlying planning'. I have seen it referred to as TOWS and with my tongue in my cheek have suggested TWOS. Publications by the Stanford Research Institute in the 1960s used a slightly different term, SOFT (the F stood for fault). I have not given a reference for this because even if I do no one can look it up, as it was a copyright subscription service. In the old literature, as I have mentioned, the idea was to do something more than what is now commonly seen as SWOT.

Other writers have criticized the current approach to SWOT, for example Haberberg (2000) and Pickton and Wright (1998). The first author wants to dump it, the second pair believe it can be improved. So what is wrong with it? My observations come from years of observation, particularly from some 20 years' experience in management consultancy, so that I have experience as a participant in such a process. I have had the opportunity to critique numerous strategic plans from different organizations and have been involved with many companies in helping them to develop strategies and strategy processes.

First, there are some good things about it. Managers at all levels do have insight, which it is useful to capture. SWOT may also be part of a process of involving people in the strategy process, with the benefits that this can bring. It is also possible to argue that there is a value from the negative aspects. If managers are unaware of limiting or enabling factors, a threat or an opportunity, there may be value in knowing that they are unaware. However, this last point is not the best way to operate and it is better to devise methods that ensure that managers move from a basis of knowledge rather than demonstrating ignorance.

The main flaws I have seen in the SWOT approach are:

- I have found that in British companies it is much harder for managers to identify strengths than things that they see as wrong with the organization. In fact I have seen many results of SWOT exercises which identify only two strengths: a highly competent chief executive and a dedicated and motivated management team. The weaknesses have run into many pages.
- The insight of many managers is operational rather than strategic and consequently much of what ends up being listed is not particularly useful. I have also seen these lists turn into do-it-yourself hangman kits, as managers get caught up with the excitement of seeing so many things to do to improve the organization, and commit themselves to impossible deadlines. A by-product is that if all the time is spent on unimportant projects, there is no capacity left to deal with the unidentified but vital strategic issues.
- It is a mistake to assume that managers always have the information and knowledge that enables them to perceive a strategic strength or weakness. One dramatic example of this was a client that made scaffold poles for the construction and building industry, which were either sold or hired for self-erection. At the time there was a recession. The belief was that in this area they were the market leaders and that they supplied all the major construction companies (two strengths) and that the current fall-off in sales was entirely due to the recession (a continuing threat). Some simple analysis showed that in fact the customer base for this product had changed and that for the past year or so there had been very few sales to the construction giants and most of the customers were small builders. The main construction companies were still clients of the company for other products, which was why a customer analysis by total

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sales fostered the belief the company had in its market strength in scaffold poles. Subsequent research showed that the construction industry in general had moved to **a hire and erect** service and as the client had not wanted to take responsibility for erection, the door was opened for new competitors. Some of these were started by former employees of the construction companies and who took over the existing stocks of these companies. Because these changes had happened over a period of time, they had not been noticed. Recession had caused a significant drop in sales but the underlying strengths and weaknesses of the organization as they struggled to deal with their problems were quite different from those perceived by the management.

- It is too easy for something positive to be perceived as better than it is. The company may be achieving record levels of productivity improvement, based on historical comparisons. But this may be like an army having the upper hand in a skirmish in the centre, while its flanks are totally overwhelmed. Whether the productivity improvement is an enabling or limiting factor depends on what is going on outside the company: how does it compare with competitors, and how does it measure up to any threat from currency fluctuations?
- The power and influence of managers involved in a SWOT process is not equal.

The power and influence of managers involved in a SWOT process is not equal

Often judgement of the importance of a factor is influenced by the perceptions of those managers with the most power and influence. The ability of others to fight their corner depends more on the culture of the organization than the logic of the argument. What often happens is that something important seen at the wrong level is shut out of the analysis. I remember the managing director of another client company which made bottle-washing equipment looking back to the warning given years earlier about the emergence of the now-ubiquitous non-returnable plastic bottle. It came from a young market researcher who was seen by the management as foisted on them by a main board director and who nobody liked. The warning he gave about the likely threat to the equipment market was dismissed as stupid ignorance and no attention was paid to it. Had it come from a manager with power and influence, strategies would have been developed which would have taken the organization away from the slippery slope on which it was sitting when I first met the client.

- I have also noticed that some managers describe an *effect* as a weakness and do not get to the *causes*. For instance, managing directors have told me that their weakness is lack of volume. In one sense this was no doubt true, it might be a useful shorthand term if all the managers know the true causes but it can be damaging if they do not. A volume problem can result from many causes, some temporary and some the fundamental seeds of decay. If nobody gets behind the broad statement, no strategy can be developed.

There are ways of making the SWOT process better. There is a simple tool that I have found useful in helping groups of managers to identify both the strengths and the weaknesses of a situation. It is a form of force field analysis, which is described in Hussey (1999, pp. 56–60). This can begin with an effect such as current volumes, market share and the cost of a product or a labour turnover ratio. The method then teases out the reasons for the situation being as good as it is. What are the enabling factors that hold it so high? The other side of the coin is what are the limiting factors that are forcing the result to be so low. This can be expressed on a

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flipchart as a horizontal line which shows the current state, with the 'good' things that are trying to make the outcome better and the 'bad' things working to make it worse.

However, I do not think SWOT can ever become really useful unless it is related to a more careful analytical underpinning. There is great value in tapping management insight and experience to help interpret the hard facts, to assess priorities and to add to them. What this does is to make the SWOT process more objective. The rest of the article is about a more analytical approach.

Some components of an analytical approach

Figure 1 illustrates four areas to be considered in an analytical approach to SWOT analysis. The classic approach divides the company appraisal into an external and internal element but in reality both have to be interpreted in the context of each other. So although at first sight the top part of the model appears to focus on understanding the internal strength and weaknesses, these have to be interpreted in the context of the whole diagram. There are some things that may stand alone, for example calculating the trend in earnings per share, but it is only possible to interpret it in the context of shareholder expectations and the performance of competitor organizations.

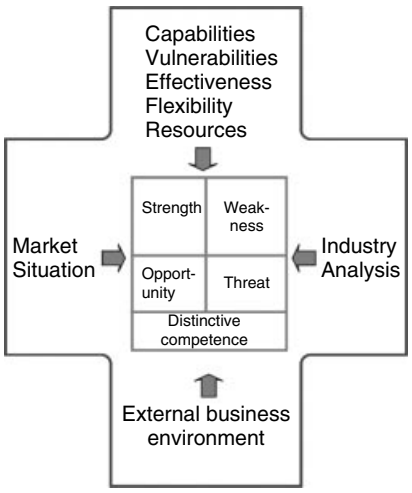

Figure 1. Company analysis.

Understanding the causal factors behind the trend requires much more detailed analysis, as does assessing the consequences for the organization of a long run of poor performance.

Industry analysis, based on the concepts of Porter (1980), places various internal elements of the organization into an external setting, and is, of course, closely related to the market analysis that appears in another section of the model. The box headed 'External business environment' really means the remaining external factors that have a bearing on the organization.

It is the results of the analysis which enable a provisional SWOT assessment to be made. Added is another assessment which is the distinctive competence of the organization.

To undertake this analysis properly requires a study of every aspect of the organization. This can be very daunting if the organization does not have systems to help it, such as good market research and a comprehensive management information system. But it is a bit more than accepting information at face value. The scaffold pole example quoted earlier shows the importance of looking at things in a different way. In that case the first step was to interrogate the management information system to produce a customer analysis which was not the same as the regular periodic report. The next step was to undertake some basic fieldwork in the marketplace to explore what had changed. So one part of the problem was revealed through information already in-house but not used. The other required information that was not currently within the organization.

Let us do a quick run through of the analytical processes. More information can be found in Hussey (1998, 1999) or in considerable detail in Jenster and Hussey (2001).

The top area of the model requires a detailed strategic audit of every part of the organization. What needs to be established are the real capabilities of the organization

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(the things it can do), the areas of vulnerability (for example, over-dependence on a few customers), its levels of performance and effectiveness, the degree of flexibility it has to meet sudden changes and the resources of various types which it can command. There are two aspects to the audit. One is to establish hard figures wherever possible. The other looks at the assumptions behind the figures. Product profitability figures, for example, are affected by past decisions on the costing methods. Sometimes those methods are good for day-to-day control but misleading when strategic decisions are required. Similarly, HRM may undertake a great deal of worthy activity but is this contributing to the strategic aims of the organization?

Although the concepts for industry analysis provided by Porter (1990) are a good basis, in practice I have found it necessary to expand them somewhat. What I try to do is to mirror the whole chain from supply to ultimate consumer, which means disaggregating the buyer and supplier boxes to represent all the stages in the chain. I also include organizations which influence the shape of a contract, although they themselves may not be a buyer (e.g. the general practitioner who prescribes a drug, although he or she does not supply it to the user). More details of these methods can be found in Hussey (1998) and in more detail in Hussey and Jenster (1999).

Analysing the market situation requires a careful analysis of the market data, the segmentation analysis and customer requirements. This cannot be done effectively without information and the audit should cover the extent to which the organization keeps itself regularly informed about what is going on and the reasons for changes in the market or in competitive positions.

The external environment requires good intelligence sources, from which it is possible to look at the impact on the organization.

What the analytical approach is doing is to seek hard evidence to answer broad questions like the list below, which is quoted from Hussey (1999, pp. 35–36):

Box 1. Importance of analysis

The need for careful analysis is reinforced by this example from the British National Health Service. The government had converted the obvious problems caused by a shortage of nurses to a plan to have an additional 20,000 in place by 2004.

The Royal College of Nursing, in a very careful analysis of the whole profession says that because of resignations and retirements this would mean recruiting 110,000 new nurses over the period to 2004. Less than half could come from education. Perhaps 29,000 who have left might be enticed back into the profession, and the balance of 39,000 could only be met if they came from overseas.

Only 1 in 8 nurses is now under 30, compared with 1 in 4 ten years ago. There is a current shortfall of 22,000 nurses across the country.

'Some of our 20,000' will be part time', says the government without being prepared to say how many.

However, the most likely explanation is that the weakness 'nurse shortage' which is obvious to any NHS manager is a superficial description of the true problem which can only be understood by very detailed analysis.

1. What are we doing now?
2. What are we achieving by doing this?
3. Why are we doing this?
4. Does what we do fit the customers' requirements?
5. How do we know this?
6. How does what we do compare with competitors, insofar as we are able to deduce this?
7. Are there other ways in which we could achieve the same benefit?
8. Should we be doing these instead?
9. How does this contribute to our corporate success?
10. How does it help the corporate vision?

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Why do all this?

You may feel that this is a lot of work, which is not needed in a modern organization with a good management information system. The evidence is that a regular overall assessment of the organization always reveals important matters that might otherwise have been overlooked. From my own experience, I have seen how challenging the costing system has given a very different perception of the profitability of particular strategies. I have also seen how information systems have become inadequate because they cannot be modified fast enough to capture the implications of a new situation. And in some organizations the management information systems are not as good as they should be, because of either scope or timeliness. It is certainly true that the task is harder when the internal and external intelligence and information systems are weak but it is necessary when they are strong.

In 1996 I was asked to teach a segment of the executive MBA course at Copenhagen Business School. My segment more or less covered the top area of the model, the internal appraisals and audits. However, I was also asked to mark assignments, which were based on the whole model, moved to one stage further: strategic recommendations. I should explain that many of the participants were managing and functional directors of medium-sized organizations, although there were also senior managers from large businesses. Through the year there had been an assignment on each of the four elements shown in the outside part of **Figure 1**. This was not a theoretical exercise but had to be an analysis of the organization for which each participant worked. For the people from large organizations this might have been a business unit but for most it was the whole company. The fifth stage was to pull together a total report, including the key facts and conclusions from the first four stages and to include recommendations.

So what was going on was an in-depth SWOT analysis, with the emphasis on *analysis*, by high-level managers who for the most part had to power to change what was going on in their companies. Although it would be wrong to claim that every company made a great strategic shift as a result of this applied learning, a high proportion did make fundamental changes in strategy because of what they now knew about the real situation. The participants were no more intelligent at the end of the course than they were at the beginning, although everyone had learnt new things from it. The real reason for the success was that their companies had undergone a thorough analysis, rather than the annual SWOT exercise in which many had previously had some involvement. Better information stimulated better strategic thinking.

Is this all there is to the company analysis?

We are not quite there yet. What has been discussed so far is a series of functional analyses, combined in a way that is creates an understanding of the whole organization. However, although every piece of information may be relevant, we should go a stage or two further. This is reflected in **Figure 2**. Here we have the overall financial and market performance previously discussed and the vertical bars illustrate the functional performance audits.

The horizontal bars in the figure show methods of analysis or ways of thinking that

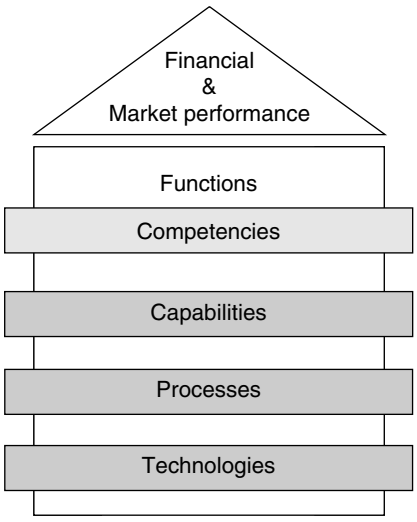

Figure 2. Ways of looking at an organization.

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stretch across the whole organization. These may knit together the various parts, or yield completely different information or slant to the analysis.

Descriptions on the bars are abbreviations of what are well documented procedures. Working from the top down we have:

- *Competencies*. This is the core competency concept (see Hamel and Prahalad, 1994). Although it is generally promoted as something different and special, it is really no more than a particular way of thinking about strengths and weaknesses, which provides a focus on what is critical for the future of the organization. It does not negate what has been described so far, but supplements it. The same could be said for each of the other horizontal bars in **Figure 2.**
- *Capabilities*. There are subtle differences between the core competencies approach and the core capabilities method suggested by Stalk, Evans and Shulman (1992). You have to be something of a purist to find them and I see this and core competencies as a choice. It would make little sense to use both.
- *Processes*. The process view encompasses a number of different ways of looking at an organization. I include in this heading the value chain method (Porter, 1985). This looks at the strengths and weaknesses of the organization in a very different way, by assessing what gives or reduces value to the customer. It stretches across the whole organization. However, it is not an easy method to apply, the main difficulty being the need to look at every activity through the eyes of customers. I have seen few successful applications of the method. In my opinion it cannot work if every assessment is made solely on the internal opinion of managers, or if there is no information that can be used to quantify the costs and the benefits of the things that deliver value.
- *Technology*. There is technology that the organization uses to operate effectively, and technology that is incorporated into the product. There may or may not be a connection between the two. In my experience it is not easy to coordinate either across a multi-business organization. A technology audit is essential for many organizations. Jenster and Hussey (2001) provide a synthesis of several ideas.

A technology audit is essential for many organizations

Why do so many organizations not take a more analytical approach?

The reasons why so many organizations take the 'ask the managers' approach and not a more analytical path onto which management insight can be grafted are numerous. They include the following quoted from Jenster and Hussey (2001):

- *Lack of guidance on how to do it.* As I mentioned earlier, there are very few books that attempt to explain how to undertake an integrated company analysis. It is also true to say that many MBA programmes spend very little time on this. Being told that something is important but not the detail of how to do it certainly makes it harder to do the job well.
- *Better management information systems.* Managers today have access to better, more comprehensive and more up-to-date management information systems than was the case in the past. This can greatly facilitate the corporate appraisal, provided the right information has been collected in the first place, which does not always happen. Regular access to information can mean that managers really are informed about every important aspect of their business and therefore do not need special exercises. It can also lead to complacency and a situation where critical factors are not related to each other or thoroughly understood and the view taken of the

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organization is fragmented and purely functional.

- *Pressure on managers.* The pressure on managers for immediate results has always been high but is now greater than ever. It is certainly much quicker to ask managers to define the corporate strengths and weaknesses than to spend precious time on special analyses. Therefore managers have to be convinced that the extra time is justified. The pressure for a quick fix means that managers will often be tempted to reach for a technique, instead of going back to basic principles, although this is rarely the most effective way to deal with a strategic problem.
- *The complexity of many companies.* Many companies are very large and complex, which can make the task of carrying out a comprehensive appraisal seem rather daunting and with the decline of large strategic staff departments the task of organizing such a study is devolved to busy line managers. However, it is a task that lies within the competence of most managers and if approached in a sensible way it need not be overwhelming.

Those who still doubt that an analytical approach can yield additional and important strategic information should ponder three points:

1. Why is it that a change of chief executive so often leads to a more careful company analysis and a completely different insight into the appropriate vision and strategy for the organization?
2. Similarly, why are management consultants so often able to give an organization clarity of thinking about itself after they have been called in to undertake a general review of it?
3. Why does it sometimes take the implementation turmoil after a major acquisition to reveal things about both the buying and the acquired organization which were not known before?

My own experience as a strategy practitioner in industry, a management consultant and a managing director is that however well-managed the organization, a well-conducted analytical assessment of it will always reveal important and hitherto unknown or neglected, information which is essential for the making and implementation of sound strategy.

Biographical note

David Hussey has written or edited some 30 books on strategic management and related subjects. His new book written with Per Jenster is relevant to this article and is believed to be the first for a long time to deal specifically with the analysis of strengths and weaknesses. It was published by Wiley in April 2001. David is one of the founders of the Strategic Planning Society and a director of the Japan Strategic Management Society. He has more than 35 years' experience as a practitioner of strategic management in industry, as a management consultant and in management education. Among his qualifications is a DLitt from Nottingham Trent University. He has been given two awards for his writing on strategic management.

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