

## THE SWOT ANALYSIS BETWEEN MYTH AND REALITY

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### **Abstract**

*The aim of this paper is to question a visual instrument adopted by some theorists and practitioners in Romania, the SWOT Analysis. Starting from the model currently in use the authors proves using both the term analysis as well as the methodology of drawing up the table named “the SWOT analysis” not only it’s uselessness but also the danger of filling up with intellectual falsehood the instruments of strategic analysis.*

*The danger is even greater as the above mentioned instrument is promoted in university manuals proliferating thus through the future managers a models that lacks scientific fundament and value.*

**Key words:** *SWOT Analysis, strength, weaknesses, opportunities, threats, SWOT matrix*

**Classification JEL:** M 14

### **1. Introduction**

In a brave seething of renewal, the Romanian authors from the area of economic disciplines enthusiastically adopted for over a decade an instrument called “SWOT analysis”. Used intensively in books, articles and presentations, the SWOT analysis seems to be the culmination of a profound and refined analysis of the situation in which a firm a region or a country evolves. The offering brought to the sound, objectiveness and perspicacity with which data and important information are collected, analyzed, interpreted and correlated.

Nothing however is more false then this attempt to hide a more precarious analysis to stridently use make up on a situation partially presented and whose nullity is hidden by the wide spread usage, imitation and by taking over without

discernment of an instrument whose value is doubted by many experts.

We set the goal under these circumstances to analyze the utility of the SWOT analysis starting from the following hypothesis:

1. the adoption of a new instrument for analysis brings important benefits: in theory it contributes to the expansion of knowledge, the stimulation of creativity, adding new competencies for the current and future professionals; in the managerial practice the benefits are felt through a better orientation in the environment and a more rigorous substantiation of the decisions;

2. the utility of a new instrument adopted is conditioned by the correct knowledge and usage of the objectives, principles, the methodology and the area of application for which it was created;

3. the expansion of the scope of application for an instrument implies a mindful adequacy of the initial methodology to the specificity of the conditions of application; in a contrary case the application *ab initio* of the methodology can lead to informational distortion and the risks of incorrect applications are multiplied.

## 2. The SWOT Matrix – objectives, principles, content

The result of the research of the American consultancy firms in 1980, the **SWOT matrix, as the matrix is the main subject** is one of the instruments of strategic analysis. Created in order to analyze the strategic capacity of a firm at a given moment, the matrix correlates the strengths and weaknesses of a firm resulted from the general diagnosis of the firm with the opportunities and dangers generated from the profound analysis of the general external environment as well as the specific competition environment. The four competition environment are combined in a matrix of 3x3 type where:

✚ on the Ox axis the strong and weak points are placed resulted from the analysis of the internal environment - Strengths, Weaknesses;

✚ on the Oy axis the results of the external environment are set out – Opportunities, Threats.

The main objective of the matrix in the vision of its creators was to identify by combining the information the possible strategic options of the firm and through this the type of strategy adequate to the identity features of the firm appropriate to the particularities of the competition environment.

The whole elaborated is based on some principles:

- **the principle of analysis** which indicates the request to expose to a rigorous research both the internal environment of the firm and the external environment in which it operates in order to achieve its objectives;

- **the principle of delimitation** which express the request to separate the aspects of the research of the internal environment to those of external environment. Thus the strength, weakness, opportunities and threats appear;

- **the principle of ordering** express the request to place on different axis the aspects resulted from the analysis of the internal environment to those resulted from the research of the external environment;

- **the principle of combination** express the request to identify strategic vectors by correlating each category of internal aspects with each category of external aspects.

The end result searched for but not found of the matrix named “alignment model”, was to indicate the type of strategy adequate to the strategic capabilities of the analyzed entity. The object of application of the model was in the original variant the strategic unit, firm, corporation.

By the terms of the objective, principles, content and scope of SWOT matrix we will make a review of the instrument adopted in the Romanian managerial theory and practice under the name of SWOT analysis.

## 3. SWOT Analysis

In the literature and even in the managerial practice in Romania, the SWOT matrix of the type 3x3 becomes SWOT Analysis a table with 2 columns and two rows.

As an example we present such a SWOT analysis with a restrained number of elements.

### The model of using the “SWOT analysis”

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>- High potential of creativity of the human resources</li> <li>- Stability of employees</li> <li>- The existence of networking resources</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>- Physical and moral wear of the equipment</li> <li>- Traditional management methods</li> <li>- Low financial potential</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>- Favorable location</li> <li>- Positive image in the competitive environment</li> <li>- The existence of European Funds</li> <li>- Juridical framework favorable to foreign investments</li> <li>- Know-how transfer</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>- Negative economic evolution</li> <li>- Insufficient promotion on the external markets</li> <li>- Low budget aimed at researching the internal and external market</li> <li>- Enhancement of the competition</li> <li>- Population ageing</li> </ul>

In respect to the objective, principles, content and area of inclusion of the original model, the “SWOT analysis” used frequently in our theory and practice reveals the following observations:

✚ **the table usually used is improperly called “analysis”**: the analysis implies the decomposition of a whole in its elements the reporting to a landmark the appraisal of deviations and the reconstruction of the elements in an optimized construction. However the table can only produce **an inventory** of a series of aspects which belong or not to the peculiarities of the situation where the firm, area is located. **Conclusion: the designation used mystifies a content lacking informational foundation;**

✚ In most cases, **the aspects mentioned in the table are not the result of a diagnosis of the external and internal environment** but are the result of general information randomly collected without a real foundation. **Conclusion the principle of analysis is violated;**

✚ in many cases as shown in table number 1, **the strengths and weaknesses which should result from the analysis of the internal environment are mixed with the opportunities and threats** generated from the external environment which leads to a lack of organization of the information and through this to a lack of utility. **Conclusion the principle of delimitation is violated;**

✚ The lack of organization of the information is evident by the fact that the drafting of a table with two columns and two rows **does**

**not allow the ordering and combination of the two category of information** resulted from the analysis of the internal and external environment. **Conclusion the principles of ordering and combination are being violated;**

✚ **The expansion of the model from the level of organizational unit to territorial level – local, regional, national**

#### 4. SWOT Matrix versus SWOT analysis

Using the same example, corrected through the point of view of the original model we present the SWOT matrix starting from the premise that the strengths and weaknesses are the result of the general diagnosis of the firm while the opportunities and threats are the result of the analysis of the external environment.

The ordering of the internal aspects on the Ox axis and those internal on the Oy leads to a totally different configuration of the matrix than the “SWOT analysis”.

According to the principle of combination solutions are being searched for which can result from the following combinations:

✚ **combination of the strengths and opportunities** following the logic that: the firm is using the strengths available in order to capitalize on the opportunities resulted from the external environment. Of course the approach can be also from the external environment to the firm in the

logic of harnessing the opportunities in order to consolidate the strengths of the firm;

✚ **combination of opportunities with weaknesses:** valuing the opportunities to decrease or eliminate weaknesses;

✚ **strengths – threats:** using strengths to avoid or reduce threats;

✚ **weaknesses – threats:** decreasing weaknesses in order to avoid threats.

Tabel number 2

**Model of using the SWOT matrix**

	<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>- High creativity potential</li> <li>- Human resources stability</li> <li>- The existence of important networking relationships</li> <li>- Favorable set up</li> <li>- Positive image in the competitive environment</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>- Physical and moral wear of the equipment</li> <li>- Traditional management methods</li> <li>- Low financial potential</li> <li>- Insufficient promotion on the external markets</li> <li>- Low budget for the research of the study of the internal and external market</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>- The existence of European funds</li> <li>- Juridical framework favorable to foreign investments</li> <li>- Know – how transfer</li> </ul>	<p><b>Strengths-Opportunities</b></p> <p><i>1.The involvement of the whole operational personnel in training regarding the hotel and restaurant technology.</i></p> <p><i>2. The set-up of a joint venture with a hotel chain recognized on the external hotel market</i></p>	<p><b>Opportunities –weaknesses</b></p> <p><i>1.Attracting European funds for the renewal of the equipment</i></p>
<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>- Negative economic evolution</li> <li>- Intensification of competition</li> <li>- Population ageing</li> </ul>	<p><b>Strengths-Threats</b></p> <p><i>1.Using creativity and stability of the personnel for the creation of attractive promotion packages and making the clients loyal.</i></p> <p><i>2.Using networking resources for the diversification and adaptation of the services offer for elderly clients</i></p>	<p><b>Weaknesses-Threats</b></p> <p><i>1.Renewal of the management methods and techniques at the level of the competition.</i></p> <p><i>2.Counteracting the decrease of the internal market by increasing the budget for research and promotion of the hotel on the external market</i></p>

Of course the way the SWOT matrix is illustrated it highlights the constructive character and not the illustrative one as in the SWOT analysis.

However the strategic management professionals bring some criticism to the SWOT matrix:

1. the solutions resulted from the combination of the four quadrants presents a high risk potential. If the strengths and weaknesses have a certain stability in time, opportunities and threats are

volatile, the external environment is dynamic and unpredictable;

2. although it offers capitalization solutions of the state of external environment, the firm does not always have at its disposal all the resources in the volumes structure and quality required so that the opportunities are always capitalized on and the dangers avoided;

3. the SWOT matrix is rather an instrument of illustration and analysis of the possible methods of action and less an instrument for the foundation of the strategic decisions.

## 5. The validation of work hypothesis

In the initial study we have started from a series of hypothesis:

1. The adoption of a new instrument of analysis brings a series of important benefits: in theory it contributes to the development of knowledge, the stimulation of creativity the accumulation of new competencies for the current and future specialists; in the managerial practice the benefits are felt in the better orientation in the environment and a more rigorous foundation of the decisions.

*At the theoretical level the **SWOT matrix** can contribute to the expansion of knowledge the stimulation of creativity by combining the four category of information to the accumulation of new competencies which are perfectible but useful however in the area of managerial practice, the matrix does not proves its qualities not in the orientation in the environment and even less in founding of decisions at strategic level.*

*The **SWOT analysis**, by the lack of finality thin content, brings severe problems as it delivers a counterfeit instrument which in the area of professional training brings incompetence and at operational level uselessness.*

*In the case of **SWOT analysis** the hypothesis number1 is invalidated.*

2. The usefulness of a new instrument adopted is conditioned by the correct knowledge and use of objectives, principles, methodology and area of inclusion and application for which it was created.

*The table named “**SWOT analysis**” does not demonstrate a comprehension of the reason why the initial model was created. The lack of knowledge of the methodology of application makes the **SWOT analysis** an instrument lacking substance. Thus the “**alignment model**” loses the significance and its utility and the “**SWOT analysis**” is just a mystification of the original model.*

*Hypothesis number 2 is also invalidated.*

3. The extension of the application area of an instrument implies a careful adequacy of the initial methodology to the specificity of the application

conditions on the contrary the application *ab initio* of the methodology can lead to informational distortions.

*By itself the extension of using an instrument beyond the area for which it was created is an advantage as long as its methodology of its application is adapted accordingly. While in the application of the **SWOT analysis** the internal diagnosis of an area, even in the conditions that is realized cannot follow the classic trait of an organizational diagnosis, the interferences with the external environment are much stronger and the delimitation more difficult to be realized and the methodology is not adequate to the particularities and complexity of the researched object, the model has no other benefits except a spectacular effect generated by its relative novelty and the denomination with exotic shades.*

*Hypothesis number 3 is invalidated*

**As long as the **SWOT analysis** does not correspond to the working hypothesis detached from the requests of practical requirements regarding the managerial inventory it can be concluded that its promotion in the actual form brings only problem in the frame of knowledge incompetence in the professional training and an elusive contribution in the framework of managerial practice.**

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