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LIMITS OF SWOT ANALYSIS AND THEIR IMPACT ON DECISIONS IN EARLY WARNING SYSTEMS

Literature review

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Abstract

SWOT (strengths, weaknesses, opportunities, threats) analysis is useful in the decision-making process – crucial to any organization manager and/or strategist. This study aims to add value to the existing literature on SWOT, indicating its use and limitations, showing the need to link SWOT to other strategic tools and methodologies.

As the current environment is turbulent and unpredictable, and economic cycles no longer comply with traditional rules, the precaution has become extremely important. That's why SWOT should be supplemented with newer dynamic analysis capabilities and strategy tools, as early warning and opportunities system (EWOS), which can provide crucial inputs for scenario building, strategic thinking and decisions.

EWOS is a novel approach based on three concepts that contribute to the ability of organization/project managers to develop outstanding capacity to "understand" and "benefit" in identifying opportunities and threats: (i) business and competitive intelligence; (ii) early warning thinking; (iii) strategic thinking in decision making process. EWOS is of practical use for strategists and decision makers.

Introduction

The present study is aimed to add value to the existing literature of SWOT, indicating its uses and limitations and to show the need to link it to other strategic tools and methodologies. SWOT analysis stands for strengths, weaknesses, opportunities and threats, representing a summary tool, useful in decision-making process by analyzing different situations.

Decisions- making process is a concept that is crucial to managers and their staff of any business organization. A SWOT analysis can help managers and their staff to identify and understand key actors and issues which could affect business & projects, but it does not necessarily offer solutions. Even though is a valuable planning tool, it has some limitations, and consequently has limited impacts on choosing the right strategies and decisions.

SWOT analysis represents only primary step of the business planning process. For complex issues, is needed to conduct more in-depth research and analysis regarding external environment and internal process in order to provide valuable input in scenarios design and eventually in business strategies and decisions. It only covers issues that can definitely be considered a strength, weakness, opportunity or threat. Because of this, using a SWOT analysis it's difficult to address uncertain or two-sided factors, such as factors that could either be vulnerability or opportunity, strength or weakness or both.

As Kotler and Caslione said in *"The Business of Managing and Marketing in The Age of Turbulence", we* are in a period when the booms and recessions are unpredictable, the economic cycles no longer complies with any rules and the precaution has become extremely important.

The main feature of the "new normality" age is the turbulent period. Manifestation of economic turbulence is similar to the natural world, these being characterized by a random occurrence and unpredictability.

Rapid changes in the competitive environment had resulted in the loss of important positions in the market for many companies / projects, in some cases leading to the complete disappearance of the market. In such conditions, flexible management strategy has become a major concern for managers to easily adapt to new conditions.

Therefore every manager should be able to answer the following question permanently:

"What new instruments should be included in management strategy both, to detect major factors and key players, and to be able to seize the opportunities offered by turbulence?"

There is a need that SWOT analysis to be supplemented with newer dynamic analysis capabilities and strategy tools, including early *warning and opportunities concept*, which provides crucial inputs for scenario building, strategic thinking and decisions. SWOT Analysis within Early Warning & Opportunities System is presented in Figure 1.

Three fundamental concepts contribute to the ability of business organization/projects managers to develop an outstanding capacity to "understand" and "benefit" in identifying opportunities and threats:

1. *Business and Competitive Intelligence* - give us the tools to understand what is happening in the business & projects internal and external environment.

2. *Early warning thinking* - methodology to understand and visualize how various aspects of external and internal environment are interconnected each other.

3. *Strategic thinking in decision process* - based on the results and inputs provided by early warning and opportunity system and scenario analysis.

SWOT analysis – Competitive inteligence – Early Warning System – Strategic Thinking Networking is presented in Figure 2.

There are many definitions in the literature bags for the early warning concept, but I will highlight just a few of the most recognized:

a. Early Warning Systems are created in order to identify risks and uncertainties and to minimize them by continuously monitoring events that might lead to a threatening situation. By providing an early enough warning that a potentially harmful sequence of events has been evolving, it should be possible to take actions in a proactive manner and thus avoid the threat (Global Intelligence Alliance, 2006).

b. Wergles, F. (2005) has pointed out that "early warning intelligence provides executives with timely valuable information about the market and competitors that enables them to make strategic and tactical decisions more quickly."

c. "The strategic early warning process focuses on (or I should say, elevates alertness to) weak, ambiguous, early signals, sometimes years before management is due to place them on its radar screen"(Gilad, B. 2006).

The above definition encountered in the literature is sketchy and incomplete for business and projects. In business and projects, especially now, in the "new economy" age characterized by turbulence, the concept of "opportunities of business" must be incorporated into early warning system

Early warning system was first used for military systems/security agencies in order to identify threats/risks to national security. Nowadays, however, besides military organizations /security agencies, the concept of early warning system is used with great success in the international security environment stability (UN, NATO, OSCE, etc), environmental protection, natural disaster prediction, control epidemics and new in the business / project management.

No need to say that markets stable, predictable are memories of the past and therefore project managers / business should focus on continuous monitoring of events and changes in markets. In such a world characterized by rapid changes and uncertainties, management strategy has become more relevant than himself internal process performance. Therefore an early warning system is of paramount importance.

Mapping the environment requires a Business & Competitive Intelligence, which are, in fact, the Early Warning System's engine and brain.

"Competitive Landscape Map" can help identify the palyers (stakeholders) and the potential relanships that shoul be monitored. (Comai F. & J.Tena, 2006).

"Competitive intelligence is the analytical process that transforms scattered information about competitors and customers into relevant, accurate and usable strategic knowledge on market evolution, business opportunities and threats. Business intelligence is the activity of scanning internal environment for summary information that is relevant for the decision-making." www.scribd.com/doc/2557817/Business Intelligence

To provide early warnings in a complex, dynamic and uncertain, the competitive intelligence must answer two questions:

a. Are there maximized market opportunities by providing information necessary for their capitalization?

b. Are there minimized "industrial dissonance" risks (a term developed by Benjamin Gilad, but attributed to Leonard Fuld, a pioneer of competitive intelligence) by obtaining an understanding vital warning signals?

In practice, competitive intelligence should be the "eyes and ears" of top managers in a global environment so changeable. Therefore every business/project manager should be able to permanently answer to the following questions:

a. There is a common understanding between management and "board" about critical assumptions regarding the strategy of the organization/project?

b. Is competitive intelligence focused on organization/projects vital signs which may affect the validity of the critical assumptions in the plan of organization/project?

The cross-analysis of information provided by both, competitive and business intelligence is synthesized based on established indicators by *early warning system* and used in order to:

1. Issuance of alerts and warnings about changes in the external/internal environment
   1.1. Detection of as many turbulences / sudden changes;
   1.2. Quick action before turbulences occurs.
2. Identification and reduction of:
   2.1. Risks;
   2.2. Uncertainties;
   2.3. Vulnerabilities.
3. Concomitant identification of opportunities that should be exploited.

Setting an *early warning and opportunities* system should be mainly oriented in the following areas:

1. Complementary Business Projects and direct competitors
2. Emerging technologies and scientific developments
3. Customers / access channels (distribution)
4. Political, religious, cultural, ecological environment
5. Other factors

Early Warning System potential benefits are presented in Figure 3.

Conclusions:

SWOT Analysis represents a very simplified view, which is used only as a base for formulation the objectives, strategies and their implementation. It provides a separate understanding of the internal strengths and weaknesses and external opportunities and threats of business organization, but it does not show us how external and internal factors are interconnected and what to do about them. Therefore, SWOT analysis cannot provide a proper framework for strategic analysis based on scenarios. It offers only a standard framework for further discussion.SWOT analysis approach has not strategy aspects; *it provides a starting place, not an ending place*.

On the other hand, being a very dynamic analysis capability, *early warning and opportunity system* is involved and integrated in all phases of strategic management process, starting from establishing of the objectives and policies till scenarios analysis & construction and strategic decision.

Combining unfocused and focused early warning and opportunity system with scenario analysis, a visionary manager can create scenarios for different situations and design strategies that enable him to respond in a timely manner with the best solutions.

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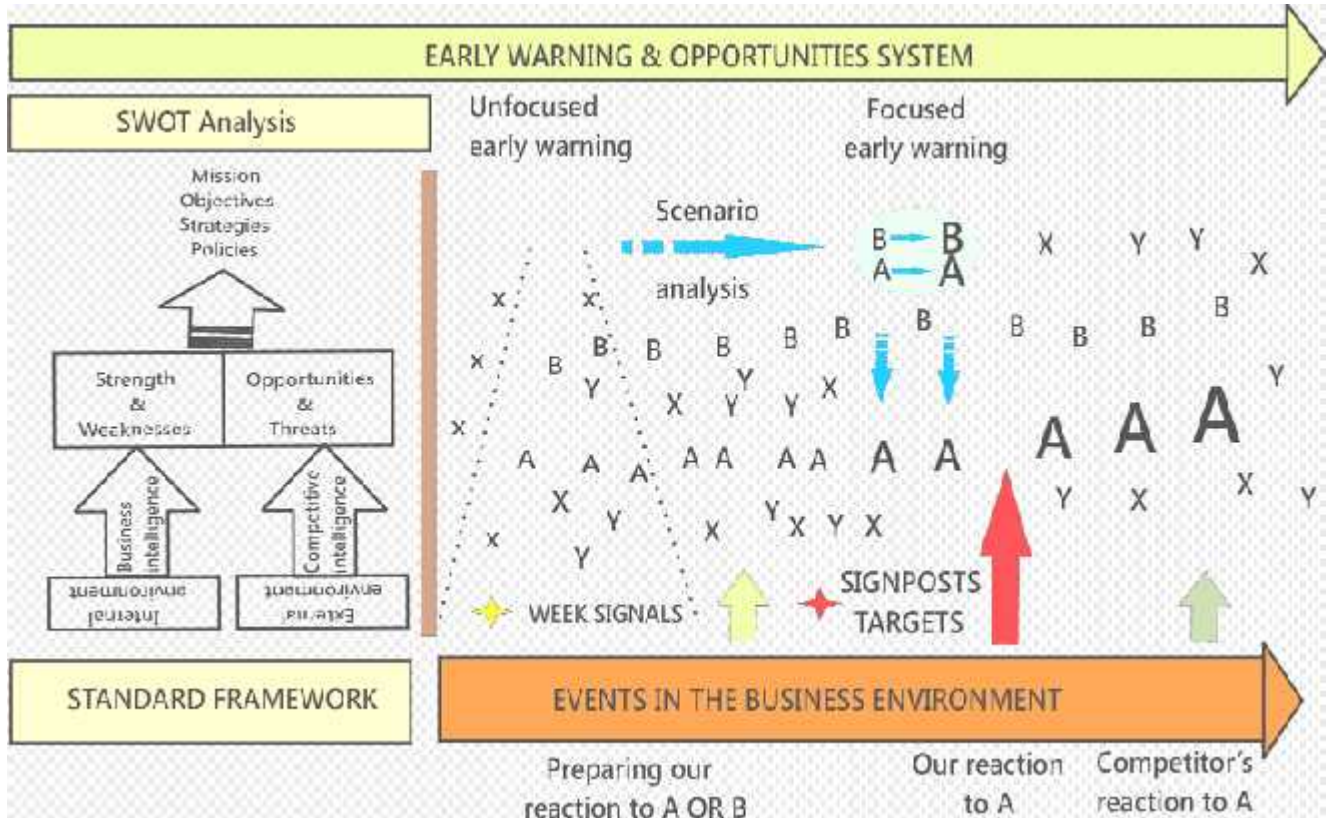[6]www.scribd.com/doc/2557817/Business Intelligence

Figure 1: SWOT Analysis within Early Warning & Opportunities System(adapted after G.I.A. 2006)
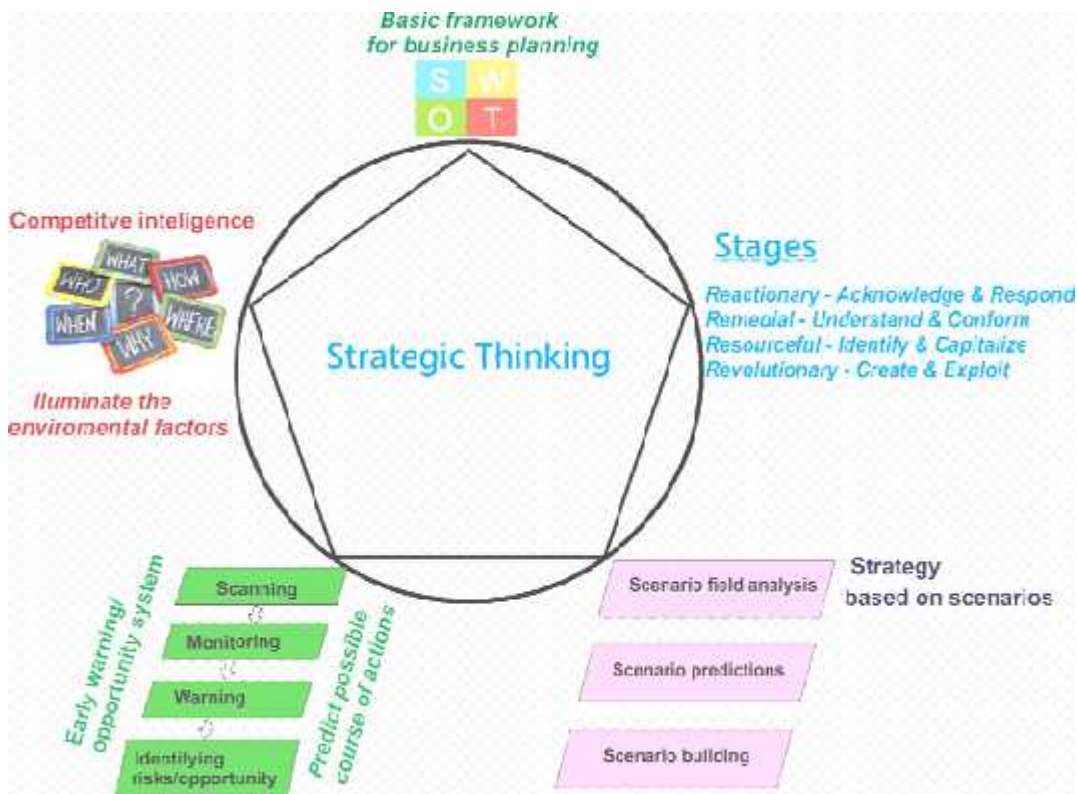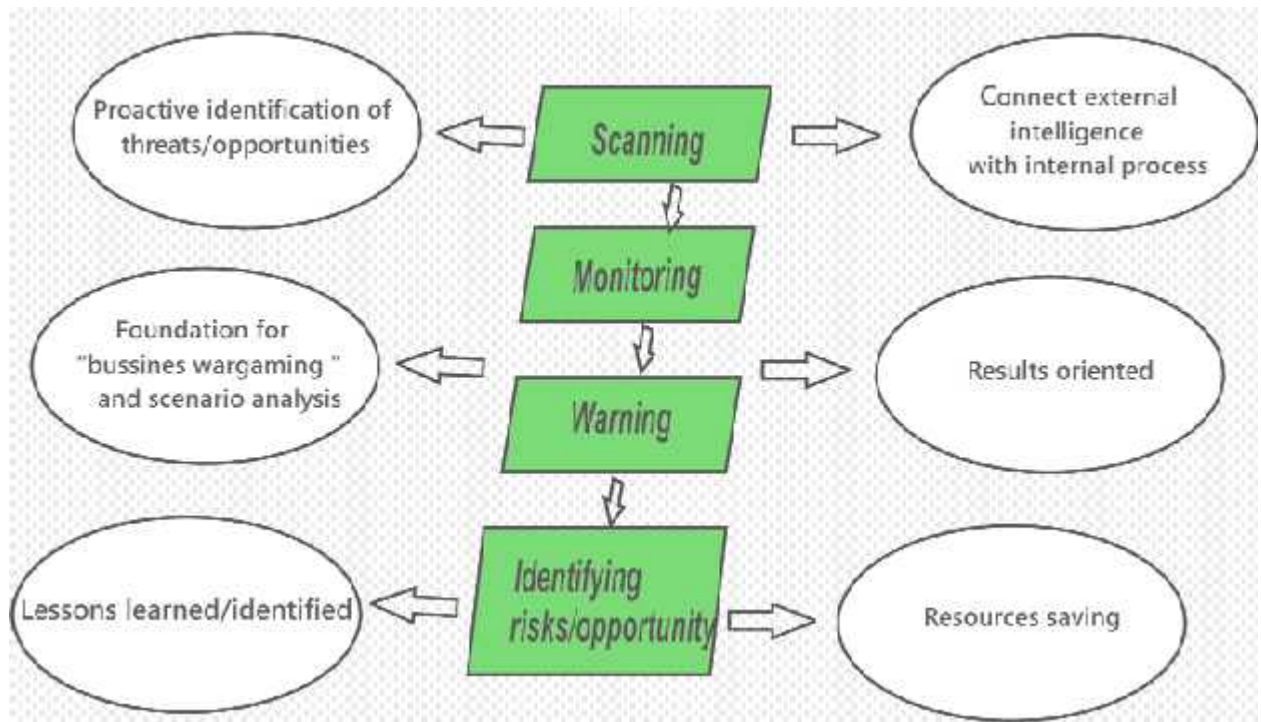

Figure 2: SWOT – Competitive inteligence – Early Warning System – Strategic Thinking NETWORKING

Figure 3: Early warning system potential benefits