SITUATION ANALYSIS & DECISION SUPPORT

Practical Management for Performance Improvement

January 2006
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SITUATION ANALYSIS

In 1957 Philip Selznick, professor emeritus of law and sociology at the School of Law, University of California at Berkeley, introduced the idea of matching the organization's internal factors with external environmental circumstances in his book ‘Leadership in Administration’ (1957). This core idea was developed into what we now call SWOT analysis by Edmund P. Learned, Kenneth R. Andrews, and others at the Harvard Business School General Management Group. Strengths and weaknesses of the firm are assessed in light of the opportunities and threats from the business environment.

The Situation Analysis or SWOT (strengths, weaknesses, opportunities & threats) analysis as it is more frequently referred to, is a process designed to expose to the company the competitive advantages that it holds in its arsenal. These advantages can be exploited via an execution strategy to increase sales revenue, profits and returns to shareholders. The analysis also draws the company’s attention to its weaknesses so that the management can focus on developing a plan to resolve the weaknesses or to create a defensive strategy. The analysis of strengths and weaknesses are representative of an internal analysis of the company's condition. Equally important to strategy development is an analysis of external conditions, the opportunities and threats analysis. External conditions that impact opportunities are, for example, changes in the competitors’ strategy, changes in demographic profiles of the market or changes in customers’ preferences. Likewise, external threats to a business could be brought about by legislative changes, political changes or environmental regulation changes. The recent increases in the cost of certain commodity products such as steel and oil good examples of external threats that could negatively impact a firm's ability to exist.
Most companies start up based on a single entrepreneur's original idea or an inventor's creation. In most case this categorizes them and makes them different. Overtime even companies with similar starting points eventually wander as numerous organizational decisions and strategies are deployed. Over its lifetime a company takes on its own special individuality and becomes, as Philip Selznick describes it, "peculiarly competent (or incompetent) to do a particular kind of work".

This process is self-reinforcing because managers concentrate on what they and their company already know, and can do, best. In the process, the different resources and capabilities that organizations acquire or accumulate then increasingly predetermine what alternatives are open for the future. In the end, directly contrary to the formal economic 'theory of the firm' (analysis of the behavior of companies that examine inputs, production methods, output and prices) companies within the same industry compete with substantially different bundles of resources and capabilities, using significantly different approaches to try to achieve individual competitive success.

**PERFORMANCE IMPROVEMENT**

The Situation Analysis helps a company see both inside and outside the company's four walls with clear vision. With clear vision a company can become very proficient at developing the best strategies and designing initiatives that will support achievement of their strategic goals. The analysis exploits the basic marketing characterizations of: what are we good at; what are we not so good at; what's going on in the world that could have a positive effect on my business; and what changes are going on in the world that could negatively impact my business.
STRATEGY FORMULATION

Strategic management can be seen as a combination of strategy formulation and strategy implementation.

*Strategy formulation* involves:

- Doing a situation analysis: both internal and external; both micro-environmental and macro-environmental.
- Concurrent with this assessment, objectives are set. This involves crafting vision statements (long term), mission statements (medium term), overall corporate objectives (both financial and strategic), Strategic business unit objectives (both financial and strategic), and tactical objectives.
- These objectives should, in the light of the situation analysis, suggest a Strategic plan. The plan provides the details of how to obtain these goals.

This three-step strategy formation process is sometimes referred to as determining where you are now, determining where you want to go, and then determining how to get there. These three questions are the essence of strategic planning.

PREREQUISITE FOR BALANCED SCORCARD

Just as a Situation Analysis is essential to the design of a strategic performance improvement plan it’s also absolutely essential for the implementation of a Balanced Scorecard. The Balanced Scorecard is a management tool that fosters the ability of a company to execute the initiatives that are in alignment with the strategic plan of the company. The Situation Analysis can be a useful tool in developing strategies and initiatives that a company might chose to implement if it desired to launch an all out effort to turn its weaknesses into strengths and its threats into opportunities.
THE SWOT PROCESS

The design of a SWOT analysis is very simple and basic. Interviews are conducted with management, employees, customers, competitors, and any individuals who may influence or impact the performance of the organization. Patterns of information are reviewed, organized and stratified based on a rating characterization of importance, relevance or potential impact on performance. Management uses this information to develop strategies and implement initiatives that will help them achieve their goals.

The SWOT analysis is a powerful and seductive tool and should be used with some frequency to ensure that a company is in step or even ahead of changing dynamics within its competitive industry. When used it will keep a company aware and tuned in to reality. When it’s not used, reality becomes blurred and companies lose site of their goals and their direction.

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The Situation Analysis should always be performed by an outside third party. Any other approach will not reveal an accurate state of reality. When a SWOT is performed by internal management the condition of “management doesn’t know what it doesn’t know” will be pervasive and the exercise will produce less than an accurate picture of the current state of reality.