Methodology evaluation

Examination

*Digital affärsutveckling*
Abstract
In this paper, I investigate the use of SWOT analysis and the resource based view as tools to elaborate a business plan and in academic research by assessing the two methods’ strengths and weaknesses.

I found that SWOT analysis is useful to structure and prioritise information in a short and concise way. Even though, the information and the information collection methods as well as the concepts and theories used in combination with the model and their quality is of the most importance for a proper use of the model.

The resource based view is useful to reflect over which internal resources are the most valuable for the company, even though it can be difficult to assess the most important assets, i.e. the intangible assets. I also found that the fact that the resource based view, which is an explanatory theory, is used as a predicative theory causes uncertainty and is problematic.

Keywords
SWOT analysis, RBV, resource based view, evaluation criterias, strengths, weaknesses, use, VRIO
1 Introduction
The purpose of this paper is to evaluate the use of SWOT analysis and the resource based view in order to assess a company’s strengths, weaknesses, threats and opportunities in the current market place.

Firstly, I will describe my personal experience of using the two models for the aforementioned purpose, thereafter evaluate them scientifically, and finally propose how they can be used to overcome their shortcomings and when the theories are suitable to use.

1.1 Definitions
1.1.1 SWOT analysis
SWOT analysis is a very popular strategic tool to assess a company’s strengths, weaknesses, opportunities and threats (Harmon 2016, Coman & Ronen 2009 and Valentin, EK 2001), where strengths and weaknesses are internal (changeable) factors and opportunities and threats are external (non-changeable) factors (Harmon 2016). It’s used both by existing companies to highlight where improvement and changes are needed and by new businesses to assess a new business idea (Harmon 2016). The analysis is an brainstorming methodology to structure information in order to get a picture of the company’s core competences and core problems (Coman & Ronen 2009).

Even though the methodology is widely used, it has been critised, e.g. it gives no guidelines about how to proceed to identify the content for the categories (Coman & Ronen 2009 and Valentin, EK 2001) and is too general which leads to shallow and misleading results (Valentin, EK 2001). One of the advantages of SWOT analysis is the simplicity and clarity (Coman & Ronen 2009).

1.1.2 Resource based view (RBV)
The resource based view is based on the assumption that it is a company’s internal resources and competences which gives the company a competitive advantage compared to its competitors. The framework distinguish between tangible and intangible resources. Tangible resources are touchable such as a factory, machines, land etc. and intangible resources are more abstract competences, such as a reputation, a process och attitude etc.

Once a company’s unique resources and competences are assessed. They are evaluated by four factors, if they are: valuable, rare, inimitable, and organized. Valuable meaning that the resource adds value to the customer, rare that few companies has the resource or competence, inimitable that it is difficult for other companies to copy and, finally, if the company can orgnise the resource so it can take advantage of it. If the answer is yes to all this question then it is a sustainable competitive advantage. (Mazzei 2016 and David J. Teece, Gary Pisano & Amy Shuen 1997)
1.2 SWOT analysis

1.2.1 My personal experience

I used SWOT analysis with the main purpose to assess and highlight a company’s strengths and weaknesses and at the same time get a picture of the opportunities and threats in the current business environment and market place.

Since the model in itself only provides a model to categorise information, I choose to base my analysis of the strengths and weaknesses on the resource based view which emphasizes that firm-specific competences and assets determines a company’s performance (Teece, Pisano & Shuen 1997) and for opportunity and threats I first did a five forces analysis and a PESTLE analysis for some guidelines as for what to include. My preparations was less extensive, though I only needed a quick insight to give me an overview and some guidance about how to proceed.

I believe it helped me to get an idea of the company’s core competences and problems, but the result depends a lot on the information research and the other concepts used in combination with the model. One problem is that the concept is so vague that the practitioner need to combine it with other methods and concepts to be able to make sense of the model. There might be a risk that it is misused or used in a sloppy way, but the openness of the model also means that it is easy to combine with other methods and concepts and can be easily adapted to new ideas and new research areas.

Another advantage is that the lack of space and the simplicity forces you to only select the most important information, e.i. the core competences and core problems, which makes it very concise. Used in a practical situation it helps you to focus on the most important.

1.2.2 Scientific evaluation

1.2.2.1 Theory analysis and evaluation criterias

First of all I need to define what kind of theory SWOT analysis is. Using Gregor’s (2002) classification it would be considered a theory for analyzing and describing in its most basic form, since it is only a matter of naming and describing a phenomena using a specific structure without investigating and naming any interrelationships.

According to Gregor (2002) should this kind of theories, which are considered to be analytical tools, be judged by their ability to help in an analysis and that the groupings and labels are meaningful and natural. Also Corley & Gioia (2011) state utility as one of two main contributions of a theory. I do believe that over forty years of use (Helms, Nixon 2010) could be considered as a proof that SWOT analysis has proved to be an useful tool.

According to Bacharach (1989) SWOT analysis should not be considered a theory due to its inability to provide us with an answer to the question why a phenomena is happening; there has to be some kind of causability, and according to Miller and Tsang (2011) since there is no attempt to explain the phenomena.

Bacharach (1989) mention two evaluation criterias: utility and falsifiability. Since I already investigated the utility criteria I will focus on the falsifiability criteria. The golden rule is that a theory never can be proven, only be disproven, which according to Bacharach (1989) is impossible if a theory is too general or too vague. The diversity of
uses of SWOT analysis and its ability to adapt over the years which is shown in Helms and Nixon’s (2010) article can be an indication that this is the case.

1.2.2.2 The investigation and information collection
Since there is no guidelines about how to gather the information needed for the SWOT analysis, even though Harmon (2016) and Valentin, EK (2001) both propose a checklist with a number of categories, each practitioner can freely choose the mix of models and theories to use in combination with the model.

Harmon (2016) underlines that numerous people from various departments should be involved in the process, which makes the process comparable to a field study and the subjects’ worldviews come into play. Klein and Myers (1999) can provide us with some guidelines about such situations, this includes contextualisation, the effects of the interaction, possible biases etc.

Ulrich and Reynolds (2010) can be used to understand how different subjects’ or departments’ worldviews clash with each other’s and understand their choices, this would help the practitioner to evaluate the value of the information and how it fits the purpose. Even the strategy analyst has a specific worldview which will effect the choices made and what to include in the analysis, i.e. “boundary judgements”, which determine what a person consider reasonable and are ready to accept as a result of their worldview.

Venkantesh, Brown and Bala (2012-2013) provide us with a success factor stressing the important of using mixed research methods, e.g. a qualitative and a quantitave methods in combination, to verify that the information is reliable and valid. A SWOT-analysis is normally purely qualitative, but ideally it should be populated with information that is quantitively proved or that the researcher with a quantative research method can prove to have an neagative or positive impact on the performance, if used in academic research (Smith 2015).

1.2.2.3 Testing - a critical view
Miller and Tsang (2011) are concerned with untested assumptions in strategic management theories.

Interpreted in the context of SWOT analysis the model is based on the untested assumption that the information provided and the way to structure it is what you need to make successful strategic decisions. Even though this assumption could be considered validated by the utility criteria as mentioned in 1.2.2.1, it will be problematic to test since it is used in a open system in a complex and changing context influenced by unpredictable behaviour and, therefore, it is difficult to assess the causal effects at the same time as the theory is too vague and imprecise (Miller and Tsang, 2011).

Miller and Tsang (2011) offer a solution inspired by critical realist philosophy. It consists of identifying all causal mechanisms that are relevant for the phenomena, and thereafter testing if they are present in the research situation in question and, finally, testing each causal mechanism separately in a controlled situation similar to a closed system.
In the context of SWOT analysis this would mean that a researcher identifies certain mechanisms assumed to be important for the correlation between the suggestion that the knowledge of a fact and assumingly doing anything about it is important for a company’s success etc. When this relationship is statistically proved in a laboratory environment we would be able to say it’s tested that the assumption is correct. This might show to be an time-demanding and impossible exercise, since the result also depends on the quality of the SWOT practitioner’s findings. But it would definitely be possible to test something similar in a less complex environment.

1.3 Resource based view (RBV)

1.3.1 Personal experience

I used the resource based view for my SWOT analysis translated into the company’s strengths in the analysis. The aim for the SWOT analysis was to define a strategic change and improve the company’s profitability. To do so I needed to understand which was the company’s unique competences and resources so they could be developed and emphasized.

I believe that one of the theory’s important strengths is that it forces you to consider if the competence is valuable, rare, inimitable, and organized. A company might have competences or resources that are actually not adding any value and are not helping them in a competitive market. In such situation, it would be a waste of the company’s resources to develop them further and instead they should invest in the resources and competences that will give the a sustainable competitive advantage.

It can be difficult to understand and assess intangible resources due to the fact that they are very abstract. But nevertheless are resources such as knowledge, reputation and attitude the most difficult resources to imitate and therefore also the most important. The risk is that the analysis end up being more like a guess work, since it is difficult to correlate a competence or resource with the company’s success.

I would say that one of the disadvantages of the method is that competences and resources that are industry standard are rejected since they are not rare. But the fact remain that the company must fulfill those standards to even be able to act on the market, since they are customer expectations.

As mentioned in Mazzei (2016), is it a problem that the model fail to take account of the fact that some resources or competences might be replaced by other ways of working or technology etc. and therefore loss its importance. One suggestion is to add a another criteria to the the four existing ones – can it be replaced? As is done in the VRIN model.

1.3.2 Scientific evaluation

1.3.2.1 Theory analysis and evaluation criterias

Using Gregor’s (2002) classification of different theories, RBV is a theory to understand, meaning its purpose is to give a possible explanation to a phenomena. The theory tries to give an explanation to why certain companies are more successful than others without the intention to make it a prediction, even though the line is very thin and most of practitioners use it as a theory to predict.
The use of it as a predictive tool, when it is in fact a theory to explain causes some issues, since correlations are open ended and not well defined.

One of the reasons why it cannot be classified as a theory to predict is that it is nearly impossible to exclude that there are no other factors contributing to the result. In fact the existence of other factors is the most probable. According to Gregor is this kind of theories evaluated by the argumentation and the logical reasoning behind.

I would agree that the reasoning supporting the theory seems logical. Even common sense would tell us that a company’s internal competencies and weaknesses would determine their performance to some extent. But no one would probably agree that it only depends on the uniqueness of their internal resources.

The theory can also be evaluated by the utility criterion defined in Bacharach (1989), and for many years now it has showed to be very useful and a popular tool to use in the field (Mazzei 2016).

1.3.2.2 Testing
If the resource based view is to be used as a predictive tool, there is a urgent need to define the correlations and causes and effects.

Here, I suggest to use Miller and Tsang’s (2011) suggested testing model. Their model consist of identifying all causal mechanisms that are relevant for the phenomena, and thereafter testing if they are present in the situation in question and, finally, testing each causal mechanism separately in a controlled situation similar to a closed system.

I mean that the testing of the well defined four criteria (valuable, rare, inimitable, and organized) can be done with this model and below I will explain my reasoning.

Since the concept is reasonably precise about the four criteria it must be possible to transfer those factors and underlying mechanisms to a laboratory environment to test.

The inimitable criteria would be possible to test by giving different groups a different way to perform a task and follow the process when other groups try to adapt it. The rare criteria might be able to test with test groups selecting what they prefer from a selection of options.

1.4 Reflection
1.4.1 SWOT analysis
SWOT analysis has proved to be an useful categorisation tool justified by the utility criteria. As a very simple tool, it is more complex and demanding to use than can be thought at first sight, since it needs to be combined with other concepts and models for ideal use.

Its vagueness is also its biggest strength as it can be adapted to new ideas and new areas, but at the same time it becomes the practitioner’s responsibility to use it right and design the information collection process in a way that the information used to populate the categories is reliable and objective. A mix of both quantitative and qualitative methods is recommended.
I found the model useful to organise the information in a clear and concise way to avoid information overload. Another one of its strengths is that it forces the practitioner to prioritise and helps to structure the data so the core issues and strengths become clear and the information becomes usable, even though it relies on some basic assumptions.

1.4.2 RBV
The resource based view is popular in the field and can definitely be justified by the utility criteria.

The biggest issue, though, is that it is used as a predictive theory when in fact it is an explanatory theory. This mistake can be adjusted by testing the four criteria one by one in a closed testing environment following Miller and Tsang’s (2011) model.

I found the model useful to reflect on what is actually valuable resources, even though it sometimes can be difficult to assess and understand which the important intangible resources are
References


