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ARTICLES

From Comparative Advantage to Damage Control: Clarifying Strategic Issues Using SWOT Analysis

Kevin P. Kearns

The principal ingredient of strategic planning is SWOT analysis—the assessment of organizational strengths, weaknesses, opportunities, and threats. SWOT can be either a powerful management tool or a superficial and even misleading exercise. Much depends on the care with which decision makers integrate their analyses of internal and external factors affecting the future of the organization. This article presents a simple yet powerful framework for identifying and clarifying four types of strategic issues facing nonprofit organizations.

We conducted an environmental scan, including an assessment of our mission and the competition, and concluded that we are positioned to achieve a comparative advantage in this new market niche.

—Executive director, Human Service Agency

NOT LONG AGO, a statement like the one above would have been heard only in the executive suite of a private, for-profit corporation. But the growing popularity of strategic planning in nonprofit organizations has, among other things, expanded the management lexicon to include terms like *environmental scan*, *comparative advantage*, *market niche*—and, of course, *SWOT*.

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*SWOT analysis
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SWOT is the strategic planning acronym for Strengths, Weaknesses, Opportunities, and Threats. In a word, SWOT embodies the conceptual and methodological core of strategic planning by focusing attention on environmental trends that may affect the mission and strategy of the agency.

But what information emerges at the end of a SWOT analysis, and how is it useful to the organization?

When performed correctly, SWOT analysis helps nonprofit executives and trustees identify and clarify the fundamental policy choices facing the agency, thereby providing a problem-structuring tool that can help decision makers ask the right questions regarding the agency's mission, its programs, and its interaction with the external environment (Bryson, 1988, pp. 139-162).

When performed poorly, however, SWOT analysis can degenerate into a superficial list-generating exercise that produces four unconnected lists: strengths, weaknesses, opportunities, and threats. Without a systematic effort to relate the lists to each other, they are of limited utility, especially in clarifying fundamental policy choices facing the agency. Participants in this list-generating exercise will have difficulty moving from the SWOT analysis to the formulation of strategies, partly because of their failure to use SWOT as a problem-structuring tool. They will find themselves unwittingly "solving" problems that have not been adequately defined, thereby increasing the likelihood of solving the wrong problem (Raiffa, 1968, p. 264; Dunn, 1981, pp. 109-110).

Some Elementary Principles of SWOT Analysis

The primary objective of SWOT analysis is to assess the agency's strategic position vis-a-vis changes in its external environment.

Generally, we recommend that SWOT analysis be conducted first with respect to the external environment (opportunities and threats) before proceeding to analysis of the internal environment (strengths and weaknesses). The logic here is that the organization must respond to the external environment, not vice versa (see Espy, 1986, pp. 25-30).

Wheelen and Hunger (1990, pp. 99-114) discuss two categories of external environments, *societal* and *task* environments. The societal environment is composed of political, economic, socio-cultural, and technological factors, also known by the acronym PESTs (Bryson, 1988, p. 122). The range of specific forces within these PEST categories is, of course, quite extensive. In general, the societal environment includes "macro" factors and trends such as life-style changes, inflation, and legislative initiatives that may positively or negatively affect the mission and goals of the agency. These forces are sufficiently broad in scope to influence not only the specific agency in question, but perhaps the entire nonprofit

sector or even the broader array of public and for-profit institutions in the societal environment.

The task environment, on the other hand, is context specific; it is composed of factors and trends directly related to the missions and goals of the agency in question or other competitor agencies. Forces in the task environment include, among others, competitive rivalry among existing agencies, the potential threat of substitute products, and changes in the power or perceived needs of specific groups of stakeholders such as clients, suppliers, interest groups, or donors (see Porter, 1985, p. 6). Since these "micro" factors and trends are unique to organizations that produce similar services, analysis of them is sometimes called an *industry analysis*.

In both the societal and task environments, decision makers search for factors (manifest) or trends (emerging) that present the organization with either opportunities for growth or service enhancement or, conversely, threats to its core mission or supporting activities. Participants in the SWOT analysis often discover that what constitutes a threat or an opportunity may actually be a matter of perception. Forecasted growth in the size of the agency's client population, for example, would generally be perceived as an opportunity for vertical growth, but some people might see this trend as a threat, especially if the agency is not prepared to meet the increased demand for its services. There is little to be gained by trying to precisely define these terms in advance, but much to be gained by subjecting each opportunity and each threat to a rigorous test of underlying assumptions throughout the process.

The internal environment is composed of factors related to the agency's products or services, structure, resources, operational procedures, culture, and current strategy (Wheelen and Hunger, 1990, pp. 46-48). Here, it may be helpful initially to think in terms of the "four resource groups" in any organization—finances, the work force, technology, and information—analogous to the four food groups in dietary analysis. At this stage, decision makers should be looking for existing factors or emerging trends that suggest whether the agency is strong or weak with respect to its products or services, structure, resources, procedures, and so on.

When examining both environments—internal and external—several analytical methods may be used, including qualitative methods, such as the delphi technique or brainstorming; quantitative methods, such as time series analysis; and causal models, such as regression analysis (Olsen and Eadie, 1982, pp. 22-28).

Key Assumption of SWOT Analysis

Traditional methods of long-range planning assume that performance targets, such as production quotas, can be developed through linear logic, which says that the future is an extension of the past.

SWOT analysis, on the other hand, requires nonlinear and iterative thinking, which assumes that goals and strategies emerge from the juxtaposition of opportunities and threats in the external environment and strengths and weaknesses in the internal environment. Instead of being preoccupied with internally generated production or growth targets, as in more traditional frameworks for long-range planning, SWOT requires decision makers to envision their organization interacting with factors in the dynamic external environment that can either facilitate or impede progress toward the mission of the enterprise.

Theory Versus Practice

**SWOT's
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with "anything
goes"**

SWOT has many advantages as a conceptual framework for strategic planning. It is a versatile and relatively simple tool that is intuitively appealing to the professional *manager* as well as the professional *planner*. It is compatible with a wide variety of analytical techniques and, therefore, can be done with the aid of a computer or on the back of an envelope. It can be used as a "rule-of-thumb" method for individual managers to organize their thinking about specific issues (see, for example, Isenberg, 1984) or as a formalized procedure for guiding a group of stakeholders toward a consensus on the strategic direction of the organization (see, for instance, Barry, 1986).

But SWOT's versatility and simplicity should not be confused with "anything goes." In fact, for maximum benefit SWOT demands rigorous discipline and sometimes tedious iteration.

Over the past eight years, I have worked closely with executives and board members from many types of organizations—health care, higher education, human services, philanthropy, government, and others—as they attempt to apply the theory of SWOT analysis to the strategic choices facing their organizations. Many of these interactions have been in "laboratory" settings (that is, more than thirty executive seminars and midcareer educational programs) where participants have engaged in structured exercises to apply the SWOT methodology in their own context. Other interactions have been in "applied" settings (for example, consultancies with nonprofit organizations, chairing the planning and marketing committee on the board of a for-profit corporation, staffing the planning process at a major university), which have provided opportunities for more detailed and extensive collaboration.

From these combined experiences, two observations emerge. First, decision makers often fall victim to one or several pitfalls of SWOT analysis, described in the next section. In general, these pitfalls can be traced to the failure to carefully, and in an iterative manner, examine the relations among external and internal factors. As a result, the SWOT analysis can quickly degenerate into a superficial and even misleading list-generating exercise.

The second observation is that the quality and rigor of the

SWOT analysis improves substantially when decision makers are introduced to a simple, yet powerful, organizing framework described later. This framework evolved from repeated observations of the difficulties encountered in the application of SWOT methodology, and from my dissatisfaction with the way the methodology generally (with a few notable exceptions) is described in the literature. Testing the effectiveness of this framework may be a viable topic for formal empirical research; for now, however, the supporting evidence is based on the overwhelmingly positive reactions from decision makers who have used it.

Some Common Pitfalls in the Use of SWOT Analysis

The most frequent and potentially most costly error in SWOT analysis is the failure to link the assessments of the external and internal environments. Indeed, all of the pitfalls discussed in this section are, in some way, tangents of the *missing link problem*.

In the application of SWOT analysis in a variety of nonprofit organizations, I have seen a temptation to deal with the internal and external environments separately, using only one or the other as a foundation for strategy development. This occurs when decision makers are inclined to launch a major strategy based solely on their analysis of external factors, without reflecting seriously on the relationship of these factors to internal constraints or distinctive competencies. The missing link problem also can manifest itself in the reverse phenomenon—developing strategies solely on the basis of perceived internal strengths or weaknesses without regard for what is happening in the external environment.

A nonprofit organization, for example, might have an extraordinary database on its clients, donors, and regional demographic trends. This, of course, is an internal strength of the agency and might be the basis for a strategy of distributing the data base to other agencies in the region or perhaps launching a consulting enterprise to enhance the visibility, prestige, and revenue flows for the agency (see Crimmins and Keil, 1983, for other examples of enterprise activities). But is there a market demand for the information in the database or the consulting service? Is there truly an external opportunity on which to capitalize? What are the legal issues in the distribution of the data or the establishment of the consulting service? Is there an external threat to the strategy?

These are fundamental questions related to the external environment. Amazingly, fundamental questions often are overlooked in the SWOT analysis unless there is a conscious effort to relate external and internal factors.

“Blue Sky” Problem

The *blue sky problem* is the result of unfounded optimism, and it can manifest itself in various ways in SWOT analysis, contaminat-

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ing assessments of both the internal and external environments. Initially, opportunities can look very promising, until decision makers realistically assess what internal conditions would have to prevail before the agency can take advantage of the opportunity. Conversely, internal strengths can be exaggerated and weaknesses overlooked or underestimated.

The trustees of a neighborhood health clinic, for example, might perceive the opportunity to expand their funding base to include various federal grants (adapted from Barry, 1986). To qualify for such grants, however, the agency must meet federal standards, which might require substantial investments in personnel, facilities, or operating procedures. Moreover, there may be other more experienced agencies competing for these federal funds. Is the pursuit of the federal grant a viable strategy for horizontal growth or merely blue sky thinking? The agency leaders cannot answer this question until they realistically assess the true benefits and costs of this apparent opportunity.

I have seen a disturbing tendency for nonprofit executives and board members to overestimate the potential value of either a perceived opportunity, or the agency's ability to successfully compete for a share of the opportunity, or both. Whether this is the result of simple naive optimism or a more sinister form of institutional arrogance, the result is the same: valuable time and resources are invested at great risk.

"Silver Lining" Problem

The *silver lining problem* is manifested when decision makers underestimate the potential influence of environmental threats. There may be a temptation to view every threat as a potential opportunity or, in other words, to believe that threats are merely opportunities in disguise. This philosophy—a kind of "macho" managerial style—can be helpful and even essential for entrepreneurial ventures, but it must be tempered with realism, foresight, and once again, a careful effort to understand the nature of external threats in relation to specific internal weaknesses and strengths.

I believe that external threats have a silver lining only when the agency is prepared in advance to mobilize specific internal resources (strengths) to attack the threat and perhaps even transform it into an opportunity.

For example, the chief executive officer of a major nonprofit research institution stated publicly that he "welcomed" a congressional investigation of whether federal research funds were being appropriately spent. He viewed the investigation as an opportunity to demonstrate his institution's superior financial controls. Not being intimately familiar with his institution's complex record-keeping and accounting procedures, the executive was surprised and publicly embarrassed when the investigation uncovered several notable discrepancies, where funds intended for research had

actually been spent on certain administrative activities. Sadly, the threat was misperceived and underestimated because it was not carefully assessed in relation to the institution's internal operations.

"All Things to All People" Problem

When driven by the *all things to all people* philosophy, decision makers tend to focus their attention on the agency's weaknesses, taking it for granted that the agency must do *everything* equally well. Thus, in the SWOT analysis, they devote inordinate attention to the agency's weaknesses and the actions necessary to correct all of those weaknesses. Naturally, all organizations should continually strive toward improvements in quality and should try to minimize their vulnerabilities, but not at the expense of ignoring their distinctive competencies, their fundamental mandate, and their core mission. Conversely, they need to recognize when other agencies have already achieved a distinctive competency and are better equipped to meet certain needs.

The idealism that characterizes many nonprofit organizations, especially social service organizations, contributes to this dilemma as decision makers attempt to address all needs in their domain. Financial constraints and growing competition among nonprofit organizations also may encourage the philosophy of all things to all people.

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"Putting the Cart Before the Horse" Problem

Putting the cart before the horse is manifested when decision makers develop strategies and action plans before they have sufficiently clarified the strategic policy choices facing the agency. We are sympathetic to this problem because nonprofit board members and executives are, after all, action-oriented people. The evidence (see, for example, Middleton, 1987, p. 143) suggests that trustees and executives perceive their collective mandate as producing results, not contemplating missions and strategic issues. They want the planning process to answer questions, not pose new questions.

This inclination, while understandable, can lead to serious problems when decision makers respond *prematurely* to strategic issues that have not been adequately formulated and defined. John Bryson is most fervent in advocating the formulation of strategic issues prior to the development of strategies when he succinctly says, "An answer without an issue is not an answer" (Bryson, 1988, p. 160).

Dunn (1981, p. 101) observes that most strategic issues are "ill-structured," involving uncertainty, conflicting interpretations, and risk. Also, Mitroff and Emshoff (1979) suggest that decision makers who are in disagreement over one or more suggested strategies should first examine the underlying assumptions each of them has made in framing the strategic choices facing the

agency. Only then can constructive discussions of alternative strategies proceed. The evidence is building for a "sociocognitive approach" (Dunn and Ginsberg, 1986) to organizational analysis that takes into account the implicit assumptions, values, and belief systems (that is, frames of reference) used by decision makers to first frame problems before evaluating their options.

A New Framework: Avoiding the Pitfalls of SWOT Analysis

The process of explicitly relating internal strengths and weaknesses to external opportunities and threats can yield new insights and perhaps challenge prevailing assumptions. In effect, SWOT analysis can help nonprofit agencies ask the right questions before implementing strategies. These include questions such as the following: How can the agency leverage its strengths to take advantage of emerging opportunities? Should the agency make substantial investments in selected areas of weakness in order to compete more effectively with another agency that has already established a clear comparative advantage? Can the agency mobilize resources or redirect its energies to avert a potential threat or transform the threat into an opportunity? These and other fundamental policy choices must be clarified before the agency can respond with strategies and tactics.

The pitfalls outlined above can be avoided with the use of a simple, yet powerful, framework for integrating the analysis of external and internal factors.

SWOT Analysis, Round 1: Identifying Opportunities and Threats

In this new framework, decision makers begin by identifying external opportunities and threats in the societal and task environments. But the process of identifying external factors should be iterative and closely coordinated with the identification of internal factors. Thus, as each opportunity or threat is identified, decision makers should immediately begin the process of integration by asking these questions: "What strengths of the agency will help us capitalize on this opportunity or avert this threat?" and "What weaknesses of the agency will prevent us from capitalizing on this opportunity or averting this threat?" (see Freedman and Van Ham, 1982). They can begin to make these preliminary assessments by generating a preliminary list of strengths and weaknesses that flows directly from the preliminary list of opportunities and threats.

This initial iterative process represents a fundamental departure from the manner in which SWOT analysis is typically described in the literature (see, for example, Koteen, 1989; Espy, 1986; Barry, 1986) and applied in practice. By following this

*Decision makers
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external
opportunities
and threats*

procedure, decision makers begin to address the missing link problem discussed in the previous section. Of equal importance, they are forced by this process to formulate more precise and more realistic definitions of *opportunity*, *threat*, *strength*, and *weakness*. Finally, this process often leads to analytical questions that require further research. For example, if decision makers find that they do not know enough about a perceived opportunity to be reasonably able to correlate it with internal factors, they may commission a staff member to do a more detailed analysis of the external and internal factors.

**SWOT Analysis, Round 2:
Identifying Strengths and Weaknesses**

Next, decision makers should focus more intently on strengths and weaknesses in the internal environment. In this step, they will expand the preliminary list of strengths and weaknesses generated in round 1. For each new item added to the list of internal factors, decision makers should ask, "Will this particular strength help the agency capitalize on an external opportunity or avert a threat?" and "Will this particular weakness constrain the agency's efforts to capitalize on an opportunity or avert a threat?" To answer these questions, they will of course turn again to the preliminary list of opportunities and threats. But it is likely that they also will add to the preliminary list by identifying new external factors that escaped their attention in round 1. Indeed, the value of this second iteration is to stimulate additional reflection on the preliminary lists of external and internal factors generated in round 1.

SWOT Analysis, Round 3: Mapping Interactions

Rounds 1 and 2, above, constitute a "matching" exercise in which the objective is to identify salient links between internal strengths and weaknesses and external opportunities and threats. In round 3, we begin to more fully clarify these links, via graphic portrayal, using a simple two-by-two matrix presented in Figure 1.

Using a matrix format like that presented in Figure 1, decision makers can develop a graphic portrayal or "map" of their SWOT

Figure 1. SWOT Analysis: Interaction of Internal and External Factors

| | | EXTERNAL FACTORS | |
|------------------|------------|------------------|---------|
| | | Opportunities | Threats |
| INTERNAL FACTORS | Strengths | | |
| | Weaknesses | | |

A library consortium observed a subtle yet important trend

analysis. External opportunities and internal strengths that are significantly related to each other are noted in the upper left quadrant, threats and strengths that are related are noted in the upper right quadrant, and so on.

For example, a library consortium (adapted from Ford, 1991) in a large metropolitan area observed a subtle yet important trend in the way criteria were being developed by foundations, government agencies, and other organizations that made grants to the consortium. Increasingly, the criteria seemed to be emphasizing interlibrary cooperation and resource sharing. This trend was perceived as a potential opportunity that coincided nicely with the consortium's demonstrated record in facilitating cooperative ventures among several of the region's largest academic libraries, traditionally known for their independence. Thus, the detected trend in funding criteria (opportunity) along with the consortium's reputation as an effective liaison (strength) were noted in the upper left quadrant of Figure 1. Moving diagonally to the lower right quadrant of the matrix, the library consortium predicted that its member institutions would be facing increasingly severe budgetary constraints for the foreseeable future (threat). Unfortunately, the consortium's own financial profile had shifted in the last few years, to the point where it was almost entirely dependent on member fees (weakness). Thus, the interaction of these two factors was noted in the lower right quadrant of Figure 1.

Matrices similar to Figure 1 have been used for many years by multiproduct businesses to analyze the competitiveness of their product portfolios. In the Growth Share Matrix developed by the Boston Consulting Group (Hedley, 1977, p. 12; also see Day, 1977; Wensley, 1981), each of a corporation's products is plotted on a matrix with two dimensions: (1) the anticipated growth rate of the market in which the product competes, and (2) the product's competitive position in the market. Products with a strong competitive position in a growing market are called *stars*, which may be nurtured through intensive research and development and marketing activities. Products with a strong position in a declining market are called *cash cows*, which are "milked" for their profits, perhaps to feed the stars. Weak products in a declining market are called *dogs*, which may be phased out or sold to another company. Finally, weak products in an expanding market are called *question marks* because their potential future value to the company is uncertain.

Another popular matrix format is the GE Business Screen, a three-by-three matrix developed for General Electric by McKinsey and Company (see Certo and Peter, 1988, pp. 96-100). The two dimensions of the GE Business Screen are (1) industry attractiveness and (2) business strength/competitive position. These two dimensions contain a number of subfactors not included in the Growth Share Matrix of the Boston Consulting Group.

Finally, Freedman and Van Ham (1982) developed a Synergy Matrix as a strategic planning tool at N. V. Philips, a multinational corporation in the Netherlands (also see Bryson, 1988, p. 150). This matrix is conceptually quite similar to the matrix in Figure 1. Market opportunities and threats are listed one by one horizontally across the top of the matrix, and business strengths and weaknesses are listed vertically down the left side. Decision makers then use a voting procedure to identify the most salient or strategically important interactions of external and internal factors, which, in turn, are noted with plus and minus signs in the corresponding cells of the matrix. Thus, a plus sign would be inserted in the cell where an opportunity and a strength intersect, a minus sign would mark the intersection of threats and weaknesses, and so on. Freedman and Van Ham suggest that decision makers identify ten opportunities and threats and ten strengths and weaknesses, thereby producing a matrix with twenty cells.

It was fascination with these three types of matrices, especially the Freedman and Van Ham format, combined with prior research on matrix representations of management choices (Kearns, 1985; Saaty and Kearns, 1985; Kearns, 1986), that led to the development of the matrix in Figure 1 and exploration of its applications in a variety of nonprofit seminars and consulting assignments. While the matrix format itself is not a new idea, I know of no similar efforts to explore and expand its applications in the nonprofit sector.

*SWOT analysis
is not an end in
itself*

SWOT Analysis, Round 4: Issue Classification

Earlier I noted that SWOT analysis is not an end in itself, but a means to identify and clarify the critical choices—strategic issues—facing the agency. The matrix presented in Figure 1 lends itself to the identification of four classes of strategic issues facing many nonprofit organizations. In Figure 2, these four classes are

Figure 2. SWOT Analysis: Issue Classification

| INTERNAL FACTORS | EXTERNAL FACTORS | |
|------------------|---------------------------|----------------|
| | Opportunities | Threats |
| Strengths | Comparative Advantage | Mobilization |
| Weaknesses | Investment/ Divestment | Damage Control |

*The agency may
even attempt to
"manage" its
environment*

labeled as follows: (1) Comparative Advantage, (2) Mobilization, (3) Investment/Divestment, and (4) Damage Control.

The upper left quadrant of Figure 2 highlights for decision makers the mix of circumstances in which the agency enjoys an exceptionally strong position, by virtue of its strengths, to capitalize on certain perceived opportunities. Thus, in the lexicon of strategic planning, the agency appears to have a *comparative advantage* relative to competing agencies. It may be, as in the case of the library consortium above, that no other agency has a similar record of accomplishment in a service for which the demand appears to be growing. Or perhaps the agency can, with minor adjustments, position itself to take advantage of opportunities that will emerge in the future.

The comparative advantage cell represents the set of desirable circumstances toward which all organizations—public, private, or nonprofit—continually strive. Yet it is not sufficient to merely identify these happy circumstances. Critical choices remain as to how the agency can solidify its comparative advantage in a constantly changing environment or, conversely, achieve a comparative advantage before other agencies can detect and act on the same opportunities. These choices constitute, in a general way, one important category of strategic issues facing the agency. Thus, in generic terms, the comparative advantage issue facing decision makers is the following: *How can the agency leverage its strengths to achieve or enhance its comparative advantage, thereby capitalizing on a perceived opportunity?* This very general formulation of a strategic issue must be given more precision and clarity according to the specific circumstances of the agency. Inevitably, conflicting goals and assumptions need to be clarified and often trade-offs must be resolved. I discuss the process of issue clarification in the following section, after further exposition of the next three generic-issue categories.

The upper right quadrant of Figure 2 directs attention to issues of *mobilization*. Here the agency faces certain threats from the external environment, but it seems to be in a relatively strong position to avert these threats if decision makers can effectively mobilize the agency's resources. If the agency is exceptionally strong, it may even attempt to "manage" its environment by transforming certain threats into opportunities for its long-term advantage. Thus, the generic issue in the mobilization cell is the following: *How can the agency mobilize its strengths to avert a perceived threat or even transform that threat into an opportunity?*

The mobilization issue, as phrased above, presents the agency with two types of choices. On the one hand, averting a threat preserves the status quo with the goal of emerging from a potentially damaging situation unscathed. On the other hand, when attempting to transform a threat into an opportunity, the agency seeks to advance its position by using a threatening situation to its long-term advantage. This second option is entrepreneurial and

involves an element of risk, as illustrated earlier in our discussion of the silver lining problem.

In the bottom left quadrant of Figure 2, decision makers face an ambiguous set of circumstances. They are presented with a potentially promising opportunity that, at present, they are not well positioned to exploit. Three strategic choices are available: (1) investing in weak programs to transform them into strengths, thereby seeking a comparative advantage, (2) divesting these weaknesses and allowing the opportunity to pass, perhaps to another agency that already enjoys a comparative advantage, or (3) holding onto the status quo by neither investing nor divesting. In the first and second choices, investing or divesting, decision makers must beware of the blue sky and all things to all people phenomena discussed earlier. While the third option, holding, appears to be extremely conservative, it may actually be a strategically clever choice if, depending on the circumstances, the decision makers believe they can maintain a position just strong enough to perhaps negotiate a partnership with a stronger agency at a future time. Thus, the generic issue presented in the bottom left quadrant is this: *Should the agency invest its scarce resources in weak programs to become more competitive vis-à-vis a perceived opportunity?*

Finally, the bottom right quadrant of Figure 2 presents situations that may be very damaging, even catastrophic, for the agency or for certain of its programs. Here the decision makers are forced to confront the unpleasant fact that the agency is currently ill-prepared to address one or more ominous threats looming on the horizon. The agency's weaknesses in this mix of circumstances make it extremely vulnerable, and its best hope may be to engage in tactics or strategies of *damage control*. Thus, the generic strategic issue in the damage control quadrant is the following: *In light of its vulnerable position, how can the agency control or at least minimize the damage that may be inflicted by impending threats?*

Of course, there may be a slim chance for more optimistic scenarios if the agency has the time and resources to transform its weaknesses into strengths. This might be a reasonable approach if the perceived threat is not expected to present itself in the immediate future. Unfortunately, agencies that find themselves in the damage control quadrant often are forced to engage in crisis management because they have discovered the threat only after its disruptive effects are being felt. Like a battleship that has been struck by a torpedo, its best hope may be merely to remain afloat. Even in crisis situations, however, there may be strategic choices available to help plan for and energize the damage control operations before it is too late (Meyers, 1986).

SWOT Analysis, Round 5: Issue Clarification

The four strategic issues presented above are merely generic representations of the types of choices that emerge from a carefully conducted SWOT analysis. Now, decision makers must attempt to

*Strategic choices
may be available
to energize the
damage control
operations*

add greater clarity and specificity to each of the four generic-issue categories. The objective is to formulate and reach agreement on a set of questions in each category that reflect the critical choices facing the agency. Naturally, the way these choices are framed will depend on the context and the specific mixture of strengths, weaknesses, opportunities, and threats. There are, however, certain general principles that should guide the process of issue clarification. Before examining these principles, we present a brief illustration (adapted from Clark, 1991) of how one agency attempted to clarify its choices related to an apparent comparative advantage.

The board and executive staff of a YMCA branch scanned their environment, using focus-group methods with key constituent groups, and noted an apparent increase in the demand for total family health care and fitness programs. They perceived this trend as a potential opportunity. A strength of this organization, as for many YMCAs, was its community image as a family-oriented facility. Thus, relative to many private health clubs in the area that catered to young singles, this YMCA branch enjoyed an apparent comparative advantage in the family health and fitness market. The comparative advantage issue for this agency was initially framed as follows: "How can the agency leverage its public image as a family-oriented facility to capitalize on the perceived trend toward family health and fitness activities?"

Subsequent discussion of this issue revealed that the decision makers did not unequivocally support the way the issue was framed. Some of them worried that the interests of other important constituencies—senior citizens, the handicapped, singles—would suffer, thereby challenging the core mandate, mission, and values. Others noted that family structures are changing, with consequent effects on their activities and schedules. Indeed, the initial framing of the issue prompted a useful discussion of what, in fact, constitutes a "family." Finally, concern was expressed regarding an intensified debate in the state capitol on the related issue of "unfair competition" by tax-exempt nonprofit organizations (Rose-Ackerman, 1982). The decision makers wanted to avoid even the appearance of aggressively competing with private health clubs, which might jeopardize the agency's tax-exempt status.

After further discussion of critical assumptions, the agency's mission, and competing goals, the decision makers reframed the issue as follows: "How can the agency develop more family programs while (1) continuing to meet the needs of special constituencies, and (2) avoiding direct competition with private health clubs?"

The decision makers in this case addressed several important questions before reframing an issue on which all of them could agree:

1. How is the issue related to the agency's mandate, core mission, and values?
2. How are the agency's clients and other stakeholders affected by the issue?
3. What assumptions are implicit in the issue, and are these assumptions reasonable?
4. Is the issue related in some systemic way to another issue of equal importance? Can these issues be combined, or must they be addressed separately?

By addressing these and other questions (see Bryson, 1988, pp. 157-161), decision makers can clarify the key strategic choices facing the agency. It is especially important, as illustrated above, that an attempt be made to surface and constructively challenge the underlying assumptions implicit in the issue. In the preceding case, a central assumption concerned the implied definition of a "family," and so the modified issue statement accommodated multiple interpretations. In other cases, assumptions may involve the reliability or validity of data that are used to forecast opportunities or threats. Mitroff and Emshoff (1979) suggest that decision makers focus most intently on those assumptions that (1) are most important to the legitimacy of the issue, and (2) are least certain in terms of available data and other evidence. Some exploratory research has been conducted with methodologies designed to surface the frames of reference and assumptions of decision makers (Dunn and Ginsberg, 1986; Kearns, 1985).

Within each of the four categories of issues, additional questions can help decision makers clarify the choices available. For example, each quadrant of the matrix can be further subdivided into additional quadrants to add more precision to the analysis. Figure 3 shows how the comparative advantage quadrant can be subdivided to show more precisely the perceived benefits of op-

Figure 3. Clarification of Comparative Advantage Issues

| | | OPPORTUNITIES | |
|-----------|-------------------------------------|---------------------------------------|---------------------------------------|
| | | Most Certain/Promising | Least Certain/Promising |
| STRENGTHS | Current Strengths (Most Certain) | Highest Comparative Advantage | More Analysis of Opportunity Required |
| | Potential Strengths (Least Certain) | More Analysis of Investments Required | Lowest Comparative Advantage |

portunities combined with a more probing assessment of the agency's strengths.

Subdividing each of the four original quadrants, as we have illustrated in Figure 3, can help decision makers surface and clarify the assumptions they made earlier in the analysis. In Figure 3, for example, the most intensive debate should probably focus on the lower left and upper right quadrants, which, respectively, require: (1) a more thorough analysis of whether to invest in potential strengths, and (2) a more accurate assessment of the potential value of an opportunity. Also, the type of analysis implied in Figure 3 will be very useful in developing priorities among strategic issues, which I address below (also see Dutton and Ottensmeyer, 1987).

SWOT Analysis, Round 6: Issue Ranking

In the preceding steps of this framework, decision makers may develop and refine many strategic issues, perhaps three or four in each quadrant of the matrix. Regardless of the number of issues generated, the agency will likely not be able to address all of them simultaneously and with equal vigor. Most often, decision makers will need to establish a priority ranking of the issues using criteria that make sense within a specific context.

The following criteria, some of which have been drawn from research on decision makers' frames of reference (Kearns, 1985, pp. 199-202), might be useful in establishing a simple rank ordering of issues:

1. The *centrality* of the issue to the agency's mandate and mission
2. The *urgency* of the issue in terms of both time and impact
3. The extent to which the agency can *control* the issue
4. The *cost* of addressing the issue
5. The *public visibility* of the issue to clients, donors, and other important stakeholders
6. The *pervasiveness* of the issue in terms of its impact on a wide range of agency goals and functions
7. The extent to which the issue affects fundamental *values* of the agency
8. The extent to which the issue requires additional *research* in order to clarify the choices
9. The extent to which *competing agencies* are addressing the same issue.

While I recognize the need for priorities, I naturally caution against approaching issues in sequence such that the ranked issues are addressed only one at a time while other issues further down the list await their turn. Such an approach ignores the concept of resource allocation, according to which varying levels of effort are invested simultaneously in each of several activities, strategies, or

in this case, issues. Whether decision makers use a sophisticated process for determining the percentage of effort to devote to each issue (see, for example, Saaty, 1980; Saaty and Kearns, 1985), or a simple brainstorming process, it is important that they consciously decide how much effort they wish to devote to pursuing the agency's comparative advantages versus mobilizing resources versus controlling damage, and so on.

Conclusion

The six-step framework presented here can help nonprofit agencies avoid all of the pitfalls of SWOT analysis outlined above.

The *missing link problem* is addressed when decision makers search for meaningful relations among external and internal factors. The first step (rounds 1 and 2) is to ask explicit questions regarding these relationships when developing the initial lists of strengths, weaknesses, opportunities, and threats. The matrix format (round 3) then graphically portrays these presumed relationships for subsequent analysis.

The *blue sky* and *silver lining problems* are addressed during the process of issue clarification (rounds 4 and 5), in which important assumptions about internal and external factors are surfaced and constructively analyzed. The semantic process of framing strategic choices helps to bring out some important assumptions, while others often are identified during the process of issue ranking (round 6), when decision makers are forced to consider important criteria and trade-offs.

The *all things to all people problem* is addressed primarily during the issue-ranking phase (round 6), when decision makers realize that they must allocate scarce resources selectively and strategically. The issue-clarification phase (round 5) also addresses this pitfall because it tends to focus attention on the distinctive competencies of the agency and its true comparative advantages relative to other agencies. This alone often is sufficient to remove the obsession with the agency's weaknesses. Participants may naturally gravitate toward the philosophy of trying to do a few things exceptionally well rather than investing scarce resources in second-rate programs.

Finally, the entire six-step process addresses the *cart before the horse problem* because it is driven toward the formulation of strategic issues rather than strategic responses. Thus, using this proposed framework, decision makers seek only to pose the key questions or choices facing the agency. Later in the strategic planning process, they will formulate strategies, tactics, and action plans to address the issues.

Logistically, the framework proposed here can be accomplished over several months or in a day of intensive discussion among trustees and the executive staff. It depends on factors such

*I caution against
approaching
issues in
sequence*

as the size and complexity of the agency, the reliability of available data, and of course the predisposition of decision makers to conduct a thorough SWOT analysis.

The framing of strategic issues is the critical component of strategic planning, and decision makers should agree in advance to devote a significant portion of the planning process to this effort. But even in one-day workshops, we have found that agencies can at least make some substantial progress toward framing a set of important strategic issues. While the evidence is purely anecdotal, we have found that people are immediately attracted to the logic of the matrix format and the resulting four categories of strategic issues. Thus, even if they do not take the time for rigorous clarification and ranking of issues, they may use the four generic categories of comparative advantage, mobilization, investment, and damage control to organize their thinking and as a guide for subsequent planning.

*People are
immediately
attracted to the
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matrix format*

Finally, I often recommend that clients use the matrix format of issue classification in the day-to-day process of management and governance, not just in the periodic (and often sporadic) cycles of formal strategic planning. For example, having a large portable matrix, like that in Figure 2, available for reference at regular board meetings can help the executive staff and the trustees enhance the quality of their dialogue on agenda items that are strategic and, therefore, properly within the domain of the board. Used in this way, the matrix can have a cognitive impact by gradually but steadily reorienting decision makers toward a continuous process of strategic thinking versus episodic strategic planning. Also, repeated reference to the matrix format might have an important cultural impact on the board of directors by serving as a subtle, yet constant, reminder that their primary role is in issue formulation, strategy development, and governance, not in the minute details of day-to-day management.

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