2. Business Concepts & Frameworks

2.1. Company

2.1.1. SWOT Analysis & Generic Strategies

As a basis for developing any kind of strategy, a solid analysis of the current and future situation of the organization is key. The SWOT analysis connects a resource-based perspective with a market-based perspective and contains the following four elements:

- Strengths
- Weaknesses
- Opportunities
- Threats

The goal of the SWOT analysis is to combine the view of the internal resources with an external analysis in order to derive strategic implications of the current situation and anticipated future developments. The analysis itself can be done on the level of the overall company as well as on the level of strategic business units. As each of the strategic business units usually has its' own strengths and weaknesses as well as a different external situation, the SWOT analysis usually must be performed for each strategic business unit separately.

1) Internal analysis – strengths & weaknesses

The outcome of the internal analysis is the identification of the organization's specific strengths and weaknesses compared to the competition. Whereas the strengths should be further strengthened, the weaknesses should be reduced if they are relevant for the competitive position.

The analysis consists of both hard facts and data (like debt-equity ratio, liquidity, production capacity, etc.), as well as soft facts (like company culture to attract key personnel, etc.).

2) External analysis – opportunities & threats

The external analysis focuses on the organization's environment and the identification of future developments, which are the foundation for potential opportunities but also threats for the organization.

Especially the anticipation of strategic discontinuities is an important aspect of the external analysis. Those strategic discontinuities are by definition difficult to anticipate, but nevertheless the external analysis should at least try to cover those developments as well as possible. If discontinuities are anticipated in due time, the strategy and planning can be adapted in a timely manner to maximize opportunities and reduce negative effects of potential threats which derive from such a discontinuity.

The analysis of the external environment consists of the competition and the market including its customers.

The main areas to analyze the competition (after first of all identifying relevant competitors) are

- Market position
- Resources and core competencies
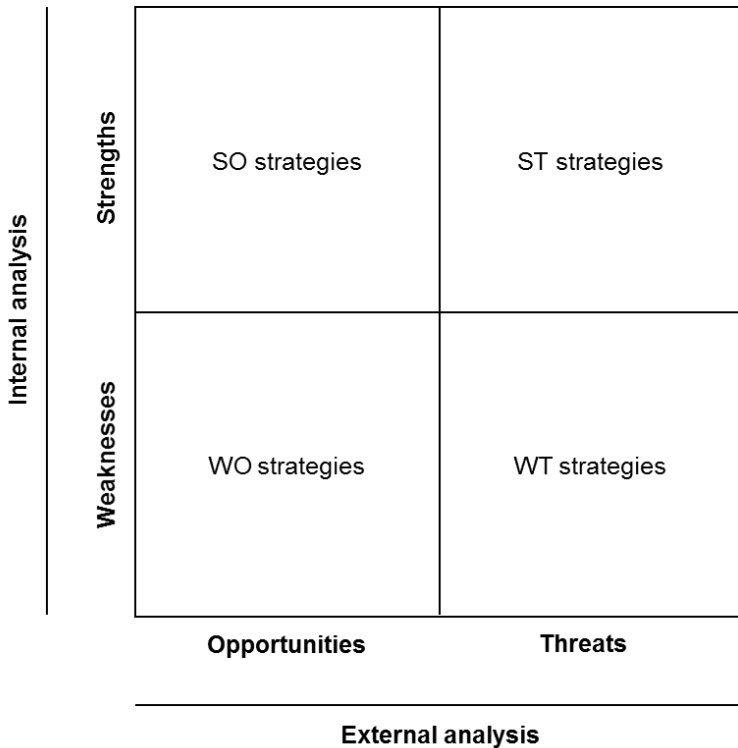- Strengths and weaknesses of all players

The main areas to analyze the market are

- Size of the market
- Number of players in the market
- Market share of each player
- Behavior of each player
- Market entry barriers
- Market exit barriers
- Products and services rendered by each of the players

In addition to the current market, the analysis should be extended to include future trends and developments like

- New markets
- Market trends
- New technologies
- Demographic changes
- Regulatory changes
- Political changes

The four elements strengths, weaknesses, opportunities and threats can be categorized in a 2x2 matrix, of which four generic strategies can be derived.

	Opportunities	Threats
Strengths	SO strategies	ST strategies
Weaknesses	WO strategies	WT strategies

Internal analysis

External analysis

- **SO strategies**: use of organization's strengths to maximize the positive outcome of future opportunities, e.g. for geographical expansion, new product development, etc.
- **ST strategies**: as opposed to SO strategies, ST strategies look at minimizing threats by making use of the organization's strengths
- **WO strategies**: WO strategies are designed to maximize the outcome of opportunities by reducing the organization's weaknesses
- **WT strategies**: reducing the organization's weaknesses to minimize threats; WT strategies can also include divestments

To implement the SWOT analysis, three major steps are involved.

1) Identification of strengths and weaknesses

Strengths and weaknesses have always been considered relative to the competition. Key areas for investigation of strengths and weaknesses are:

- Financial
- Organizational
- Technological
- Personnel
- Time

As opposed to analyzing strengths and weakness for a specific organization (e.g. strategic business unit), the analysis can also be done for each major part of the value chain (which of course requires additional efforts).

2) Identification of opportunities and threats

Opportunities and threats have its roots in the external environment of the organization and can be divided into the following macro factors:

- Economic (e.g. macro-economic developments)
- Physical (e.g. availability of raw material resources)
- Socio-economic and cultural (e.g. shift of society values)
- Technological (e.g. new innovative technologies)
- Political and legal (e.g. introduction of new laws)
- Demographic (e.g. change in age structure)

In addition to those macro factors, opportunities and threats can also stem from micro factors, which mainly refer to other organizations and people with whom the organization is connected. Those other organizations and people can be suppliers, customers, competitors, etc. Opportunities are arising from developments in those areas which the organization can make use of in a positive way, whereas threats are arising from developments in those areas which can harm the organization.

3) Mapping of internal strengths and weaknesses combined with external opportunities and threats

The core part of a SWOT analysis is the combination of both the internal strengths and weaknesses and the external opportunities and threats into a combined portfolio view.

The outcome of a SWOT analysis can look like shown in the following chart.

	Opportunities	Threats
Strengths	• Strong customer-oriented culture • Great value for money • Flexible, internal structures • Strong focus on employee training • High cost awareness	• Follow-up projects • Further focus on core competencies • Strong presence in public discussion • Strong relation to former employees • Incentive-based compensation
Weaknesses	• Low number of projects • Staying in touch with long-term customers • Undifferentiated marketing materials • Internal focus too strong • Weak internal knowledge mgmt.	• Lack of specific industry knowledge • Lack of systematic organizational learning • Bureaucratic internal procedures • Economic development

Internal analysis (vertical axis) — *External analysis* (horizontal axis)

4) Deriving strategies for the combined portfolio

After identifying strengths, weaknesses, opportunities and threats, strategies need to be derived in order to make best use of opportunities and reduce negative effects of threats. As an example, strategies for the four matrix areas can look like shown in the following chart.

	Opportunities	Threats
Strengths	• More emphasis on strengths gained from previous projects • Active communication of personnel qualifications • Use great value for money message to approach mid-sized clients	• Creating internal support structures to free up time for acquisition of follow-up projects • Targeted acquisition of highly trained employees
Weaknesses	• Sharpen service offering in marketing • Actively approaching former employees • Creating a systematic approach for staying in touch with long-term customers • Creating incentives for knowledge transfer	• Replacing bureaucratic structures with giving more responsibiltiy to team • Increasing leeway in decision making of junior employees

Internal analysis

Opportunities   **Threats**

External analysis

2.1.2. McKinsey 7S

McKinsey's 7S framework helps to analyze a company's organizational design, taking into consideration seven key internal elements of an organization. Whenever crafting or deploying a new strategy, those seven elements should be considered to ensure that the strategy fits to the organizational design and vice versa. The model was developed in the 1980s by Tom Peters, Robert Waterman and Julien Philips.
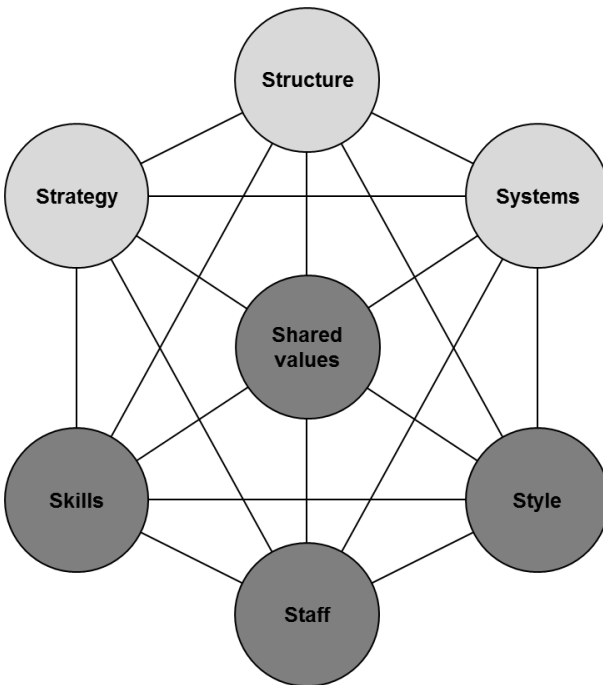
Those seven elements can be divided into hard and soft factors.

Hard factors, which conceptually differentiate the organization from others**:**

- **Strategy**: the company's goals in general and the way to ensure long-term success, as well as the supporting measures to achieve those goals
- **Structure**: the organizational structure and coordination mechanism

- **Systems**: primary and supporting processes of the organization to deliver its value to the customer

Soft factors, which represent the supporting internal management system**:**

- **Style**: behavior of the organization's leadership and how they handle people, showing the leadership style and contributing to the corporate culture
- **Staff**: personnel of the organization and its characteristics
- **Skills**: referring to the organizational skills, rather than to the skills of single individuals within the organization
- **Shared values**: shared values combine the soft and hard factors of the organization and include the values, beliefs and principles of the organization's members

Taking the McKinsey 7S model into action involves three major steps.

1) **Analysis of the seven elements (with sample questions like shown below)**

   Strategy:
   - How does the vision and strategy currently look like?
   - How well do employees know and understand the overall strategy and the derived goals?
   - Which conflicting goals are existing?
   - Is the strategy still appropriate when looking at future challenges?
   - Does the strategy help us to obtain a clear differentiation from our competitors?
   - Who is responsible for developing and improving the strategy?

Structure:

- Does the structure correspond to the required complexity or simplicity?
- Is there a clear organizational chart?
- Does the structure support or impede people in fulfilling their tasks?
- Are expertise and responsibilities defined clearly enough between different units within the organization?
- Which structural changes are required and who is involved in it?

Systems:

- Which processes are important for the company? How well are they working and is their quality monitored?
- Which formal and informal processes support the organization's strategy?
- Are processes clearly defined? Which conflicts are arising at interfaces?
- In which areas are processes not yet working in the way they should?

Style:

- Which rules and norms are mandatory to fulfill in the organization?
- Which incentive structures are existing?
- How strong is the focus on individual achievements vs. team achievements?
- Is there a positive culture of error?
- What are the characteristics of current leadership and which relation does it have to the personnel?

- Does the leadership style fit to the aspired corporate culture?

Staff:

- Does the personnel structure correspond to the business requirements?
- Are human resources really a critical capital for the organization, or just a means to an end?
- Does the organization have a competitive advantage due to its human resources?
- How is the development of personnel organized in the organization?
- How large is personnel turnover?
- In which areas is further development of personnel necessary?

Skills:

- Which outstanding capabilities does the organization have? Is a competitive advantage based on those capabilities?
- Are the skills and knowledge dependent on specific people in the organization, or is it distributed and/or codified?
- Are there incentives and systems to broadly share knowledge?
- Where does the organization have potential for further development of skills?

Shared values:

- What are shared values in the organization?
- Do employees belief in and share those values?

- Which philosophy and self-image is prevalent in the organization?

2) Understanding the relationship between those elements

After analyzing the seven elements themselves, the relationships between those elements need to be understood. For doing so, a matrix can be developed to determine supporting and conflicting aspects for the seven elements in a structured way, and if possible, a solution for eliminating conflicting aspects.

	Strategy	Structure	Systems	Style	Staff	Skills	Shared values
Shared values							
Skills							
Staff							
Style							
Systems							
Structure							
Strategy							

3) Deriving strategic implications

Finally, a decision must be taken whether or not the aspired strategy can be implemented on the basis of the 7S elements. In case that this is not possible, a decision must be made whether the strategy or the 7S elements or both need to be changed/influenced.