

Volume 16, Number 1

**Print ISSN 1544-1458
Online ISSN 1939-6104**

**ACADEMY OF
STRATEGIC MANAGEMENT JOURNAL**

Editor

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TABLE OF CONTENTS

ANALYZING THE USE OF STRATEGIC MANAGEMENT TOOLS AND TECHNIQUES BETWEEN IRANIAN FIRMS.....	1
Bagher Asgarnezhad Nouri , University Of Mohaghegh Ardabili	
Milad Soltani, European University Of Cyprus	
A SHIFT IN LEADERSHIP.....	19
Eyal Eckhaus, Ariel University	
SHAREHOLDER VALUE AND CRISIS COMMUNICATION PATTERNS: AN ANALYSIS OF THE FORD AND FIRESTONE TIRE RECALL.....	32
Sheri L. Erickson, Minnesota State University Moorhead	
Mary Stone, Minnesota State University Moorhead	
Thomas A. Hanson, Minnesota State University Moorhead	
Abby Tolifson, Minnesota State University Moorhead	
Netsai Ngongoni, Minnesota State University Moorhead	
Jenna Kalthoff, Minnesota State University Moorhead	
EMPIRICAL DIFFERENCES BETWEEN ROE- GROWING AND ROEDECLINING FIRMS IN RESOURCE SOURCING, ALLOCATION AND MANAGEMENT.....	54
Tewhan Hahn, Auburn University At Montgomery	
Ravi Chinta, Auburn University At Montgomery	
CEOS CHARACTERISTICS AND THE SUCCESSFUL OF TURNAROUND STRATEGY: EVIDENCES FROM INDONESIA.....	59
Herri, Andalas University, Indonesia	
Arief Prima Johan, Andalas University, Indonesia	
Rebi Fara Handika, Andalas University, Indonesia	
Yuliharsi, Andalas University, Indonesia	
A STRUCTURAL APPROACH TO ETHICAL REASONING: THE INTEGRATION OF MORAL PHILOSOPHY.....	71
Khalizani Khalid, College Of Business Administration Abu Dhabi University	
Sam E. Eldakak, University College Abu Dhabi University	
Siew-Phaik Loke, Quest International University Perak	
IMPACT OF TOTAL QUALITY MANAGEMENT IMPLEMENTATION ON EFFECTIVENESS OF HUMAN RESOURCE MANAGEMENT IN THE JORDANIAN BANKING SECTOR FROM EMPLOYEES' PERSPECTIVE.....	104
Hilda Ghaleb Madanat, WISE University	
Anis S. Khasawneh, Yarmouk University	
ANALYSIS OF CROSS BORDER ACQUISITIONS BY INDIAN INFORMATION TECHNOLOGY SECTOR FIRMS (PART-1).....	139

Anand Gaurav Chandrawanshi, Maulana Azad National Institute of Technology,
Bhopal
Amit Banerji, Maulana Azad National Institute of Technology, Bhopal

DIFFUSION OF A TWENTIETH-CENTURY INNOVATION.....	162
Mike W. Peng, University of Texas at Dallas	
Cristina O. Vlas, University of Texas at Dallas	
FROM SWOT TO VALUE APPROPRIATION: CAREER IMPLICATIONS.....	165
HoWook Shin, Bowling Green State University	
Gregory G. Dess, University of Texas at Dallas	

DIFFUSION OF A TWENTIETH-CENTURY INNOVATION

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ABSTRACT

“Has SWOT outlived its usefulness?” by Michael D. Meeks (2016) in the pages of this Journal is a breathtaking presentation of the obvious: SWOT has shown signs of aging. While we agree with Meeks’ comprehensive review and his meticulous findings, we disagree with his indictment: SWOT needs to be “abandoned.”

INTRODUCTION

One piece of fascinating new information that we had not previously been aware of prior to reading Meeks (2016) is that according to a study by Ghazinoory, Abdi, and Azadegan-Mehr (2011), of the 530 publications covering SWOT since 1982, only 7% (37 publications) were in business management or closely related fields. The rest—in fact the vast majority—of the SWOT-oriented papers was found in wide-ranging fields such as agriculture, health and healthcare, marketing, and tourism. Meeks (2016) interprets this finding negatively: “for a tool developed by business policy strategists as a cornerstone of strategic analysis, scholars central to strategic theory and the development of practitioner tools fail to see it as such.”

We disagree with Meeks’ (2016) pessimistic interpretation. Instead, we view this finding as *wonderful* evidence of the successful diffusion of an innovation originated from the business policy and strategic management field to the other disciplines. The diffusion-of-innovation literature asserts three points: (1) Innovation is “an idea, practice, or object that is perceived as new by an individual” (Rogers, 1983: 11). (2) Innovation takes time to diffuse from one domain to other areas (Bass, 2004). (3) Innovation adoption decisions can be classified into three groups: (a) “optional” (made by individuals), (b) “collective” (made by consensus by a group), and (c) “authority” (made by higher authorities) (Rogers, 1983: 29). It is possible that some innovations may be selected by some higher authorities. However, this is not likely in the case of academic research (Peng, 2001). In the intellectual marketplace, the adoption of a framework always represents an “optional” or “collective” decision made when researchers craft their individual or joint work. Therefore, we suggest that given its widespread diffusion beyond the strategy field, SWOT must have given its adopters—authors of the 530 publications surveyed by Ghazinoory et al. (2011)—the right theoretical tool via which to accomplish their research goals.

The diffusion-of-innovation literature also suggests that at some point, all innovations will lose their novelty (Rogers, 1983). It is not surprising that in the home discipline of SWOT analysis, SWOT is no longer viewed as novel subjects worthy of significant attention (Meeks, 2016). However, even if innovations depreciate with time, they become part of the knowledge base. Subsequent innovations build on this enlarged knowledge base. In the case of highly dynamic environments, perhaps few—or none—of analytic tools are truly useful. This does not mean

strategists should stop using them. Instead, they should devote resources to developing complementary analyses such as value-chain analysis or the resource-based view (RBV) focusing on the value, rarity, inimitability, and organization (VRIO) framework.

What is our recommended approach regarding SWOT in strategy teaching and practice? Instead of abandoning it (Meeks, 2016), we suggest teaching it—but without spending too much time and without misleading students that SWOT is “it.” Instead, the first author, who has over two dozen years of strategy teaching (and some consulting) around the world and who has authored a best-selling textbook *Global Strategy* (Peng, 2014) that has been translated into Chinese, Portuguese, and Spanish, would tell his MBA and EMBA students:

“In presentations to boards, colleagues, and other audience members, if you only present SWOT analysis, this signals that your MBA is from the 20th century. To signal that your MBA is from the 21st century, you need to go above and beyond SWOT analysis, by presenting newer and more sophisticated techniques and analyses.”

While preferences differ among strategy researchers and educators on what the newer and more sophisticated techniques and analyses are, we would recommend Barney’s (2002) resource-based VRIO framework. To the same extent that SWOT analysis is no longer a hot research topic that has generated much buzz in recent strategy publications (Ghazinoory et al., 2011), basing strategies on the resource differentials between firms may become so obvious that at some point in the future scholars are likely to drop the compulsion to note that an argument is “resource-based” (Peng, 2001). But by then, the purposes of the newer innovation, the RBV that is centered on VRIO, to influence strategy and allied fields—just like those of an earlier innovation, SWOT analysis—will have been well served. Such is the well-known evolution of innovations as they diffuse away from core domains to neighboring areas (Rogers, 1983).

In conclusion, SWOT analysis does not need to be jettisoned as suggested by Meeks (2016). But its novelty as an old innovation whose shine has been eroding needs to be noted.

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FROM SWOT TO VALUE APPROPRIATION: CAREER IMPLICATIONS

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ABSTRACT

Meeks (2016) argues that while SWOT has been an important part of strategic analysis and strategy education, its usefulness has significantly diminished under ever-changing market conditions. He suggests that “such a model is inappropriate for our current dynamic marketplace, and should only be used as a cursory framework for elementary or preliminary analysis, and then only when its limitations are fully understood” (Meeks, 2016: 1). We agree with Meeks’ (2016) contention that SWOT be used with great caution.

INTRODUCTION

While SWOT can be a good first step (or “preliminary”, Meeks, 2016) of strategic analysis and planning, SWOT users must be aware of its limitations. The popularity of SWOT as a basic strategic analysis framework can be attributed to several factors. SWOT enables managers to simultaneously take both internal and external conditions into their strategic planning process. Using SWOT, managers therefore would be able to proactively identify and respond to opportunities and threats by finding an appropriate match between external and internal conditions (i.e. strengths and weaknesses) (Dess, McNamara, & Eisner, 2016). However, SWOT analysis has five major limitations. While Meeks (2016) criticizes the extant strategic management textbooks for uncritically including SWOT, Dess et al. (2016) explicitly states those limitations. First, strengths do not necessarily provide the focal firm with competitive advantage when those strengths are irrelevant to the firm’s organizational goals. Second, SWOT implicitly assumes that only immediate competitive environment is relevant. Third, as Meeks (2016) notes, SWOT provides managers with merely a snapshot of constantly changing situations. Fourth, SWOT leads firm to have very narrow strategic focus. Fifth, SWOT ignores important relationships among various stakeholders. Thus, SWOT should be used only as the starting point of strategic analysis and planning.

However, it is also worth noting that any strategic analytic framework cannot be perfect but needs to be supplemented by intuition as well as “perceptual acuity” referring to “the ability to sense what is coming before the fog clears” according to Ram Charan (Merio, 2013: 75). For example, the late Steve Jobs emphasized the importance of intuition in order to figure out what customers want even before they know what they want (Byrne, 2012).

Evolution of Strategic Management

SWOT may be viewed as a part—not the entirety—of what may be viewed as the “evolution” of strategic management. Analytic frameworks for strategic management have evolved because of the awareness of and imperfection of the extant frameworks. Let’s look at such an “evolution” of strategic management over the past several decades.

Since SWOT does not discuss how to achieve a competitive advantage, the appearance of strategic analysis frameworks focusing on *competitive advantages* may be a natural consequence. Porter (1985) argues in his seminal book that a firm can be represented as a chain of value-generating activities. If firms can generate value which is more than a cost of conducting those production activities (primary and support), those firms can acquire a competitive position. He proposes two primary strategies for achieving competitive advantage: 1) cost leadership; and 2) differentiation (Porter, 1996). Later, Barney (1991) develops the resource-based view (RBV) and argues that a firm’s competitive advantage depends on resources it possesses. Specifically, a firm having valuable, rare, costly to imitate (due to unique history, causal ambiguity, and social complexity) *resources* efficiently exploited by organization can acquire competitive advantage over competitors. Furthermore, as managers and strategy scholars give more attention to sustainability of competitive advantages, the inimitability and substitutability of a firm’s resources become salient. This sustainability-oriented framework particularly focuses on intangible firm resources such as knowledge. For example, Spender (1996: 46) notes that “so long as we assume markets are reasonably efficient...it follows that competitive advantage is more likely to arise from the intangible firm-specific knowledge which enables it to add value to the incoming factors of production in a relatively unique manner.” In addition, the concept of value appropriation has emerged to recognize the significant influence of stakeholders on business strategy and addresses how value created can be appropriated and allocated among a firm’s stakeholders. This concept emphasizes that it is critical for firms not only to create value but also to capture, protect and efficiently allocate return on value creation activities (Reitzig & Puranam, 2009).

Value chain analysis, RBV’s VIRO framework, sustainability framework derived from RBV, and the value appropriation concept have helped to provide managers and scholars with valuable and relevant concepts for both research and practice.

Career Implications

We discuss the evolution of strategic management because relying on a single analytic framework should be not only inappropriate but also unrealistic. Rather, we believe that each available framework has value. Also, each framework has important implications not only for the practice of management but also for professional careers. The implications of each analysis framework on individuals’ career development are summarized below.

1. **SWOT:** individuals can regularly and briefly assess their own strengths and weaknesses and consider opportunities and threats in their career development. While this may be an elementary level of analysis, individuals will be able to use this idea in their career planning.
2. **The Value Chain:** it helps individuals to not only develop understanding of “what their employers’ activities are most critical for attaining competitive advantage”, but also evaluate how well their own activities align with their career goals (Dess et al., 2015: 102). For example, individuals who can correctly determine the most critical activities of their organizations via the value chain analysis will be more likely to position themselves to affect those activities, add value to the organization, and advance their careers.
3. **Competitive Advantage:** here, individuals can help determine whether their current organizations implement should a cost-leadership strategy or a differentiation strategy or both. Individuals think about whether their current skills and capabilities align with their organizational strategies. Clearly, people with skills which complement their organizational strategies will have a better chance to be successful in those organizations. Moreover, individuals should think themselves as a “business” and about their own sources of “competitive advantage” in promoting their careers.
4. **RBV and sustainability:** individuals should evaluate whether and how their capabilities are valuable, rare, costly to imitate, and hard to substitute. If individuals possess valuable, rare, and inimitable skills and knowledge, they will have competitive advantage over others in pursuing their careers. If their skills and knowledge are extremely costly to imitate and potential employers cannot easily acquire a substitute for those skills and knowledge from strategic factor markets, such individuals will enjoy sustained competitive advantages.
5. **Value appropriation:** individuals should evaluate whether and how value they create actually contributes to their career advancement and develop ways making their efforts and capabilities contribute to their career advancement. Adopting the value appropriation concept, individuals are better able to determine how their current organizations allocate profits generated and resources across organizational stakeholders.

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