An Integrated Strategy Framework (ISF) for Combining Porter’s 5-Forces, Diamond, PESTEL, and SWOT Analysis

Roman Anton

HfWU - University of Economics and Environment, FAME

1 December 2015

Online at https://mpra.ub.uni-muenchen.de/72507/
MPRA Paper No. 72507, posted 12 July 2016 18:30 UTC
An Integrated Strategy Framework (ISF) for Combining Porter's 5-Forces, Diamond, PESTEL, and SWOT Analysis

Roman Anton *

ABSTRACT

INTRODUCTION Porter's Five-Forces, Porter's Diamond, PESTEL, the 6th-Forths, and Humphrey's SWOT analysis are among the most important and popular concepts taught in business schools around the world. A new integrated strategy framework (ISF) combines all major concepts. PURPOSE Porter's Five-Forces, Porter's Diamond, PESTEL, the 6th-Forths, and Humphrey's SWOT analysis are among the most important and popular concepts taught in business schools around the world. A new integrated strategy framework (ISF) now combines all of these major concepts. DESIGN An alignment of the previous models is used to cancel, combine and unify previous nodes to build a more comprehensive and compatible logical strategy landscape with a star topology of industry structure to derive competitive advantage via holistic and weighted network analysis at its hub. FINDINGS The models could be simplified into an integrated strategy framework, which may assist in a more systematic final assessment and consolidation of all sub-models into strategic decision-making. ORIGINALITY The new ISF model is the next logical step to visualize a combination of all major analytical competitiveness models, which is required for all final strategic decision making and enables a more holistic qualitative and quantitative strategy analysis and better prepares for in-depth analysis.

* HfWU, University of Economics and Environment, FAME (FAVM), Nürtingen, Germany

* corresponding author roman.anton2@gmail.com
INTRODUCTION

The Five-Forces model (Porter 1985), first proposed by Harvard Professor Dr. Michael E. Porter, around 1979, has gained considerable attention and acknowledgment worldwide, due to its relevance and influence on corporate, business, and organizational strategy formation. Since more than 25 years, it is still one the most fundamental, one of the most universal, and most frequently taught strategy concepts in business schools so far, and it is generally, and widely, also much recognized by managers, strategists, marketers, and scholars (Ketels & Keller 2015). It is one of Porter's very early, basic, but at once, also most essential strategy models that aid in getting a more systematic understanding of industry structure, competitive advantage, and the many specific facets of strategy and business rivalry (Porter 2008). If the Five-Forces model is employed suitably and in detail, industry structure (Porter 1985) can be revealed at the segment level of all various types of competition and entities (see Fig. 1). It includes all factor and demand bargain conditions, as well as the threats from substitutes, and from new market entrants - and recently also guidelines for its in-depth analysis were proposed (Dobbs 2014). Fifth, these four forces effect and affect rivalry and competition (Porter 1985), and thus market attractiveness, and as a result bear analytical value for strategy formation (Fig 1). These five forces can be amended, and also have been, by a 6th-force, constituted by product and service complementors, and their respective quantitative elasticity and cross-elasticity coefficients [of both complementing and substituting goods]. Furthermore, also rivalry and competition can be, and was, independently of the 5-forces model, amended by "co-opetition" (Brandenburger & Nalebuff 1997). This co-opetition plays an increasingly complex and powerful role in the monopolizing network economy of strategic partnerships, M&As, and collaborations, which all can have both, synergistic impact on the micro- and macrocosms of the industry structure and markets, but also anti-competitive impact of market failure, especially if fair platforms of competition and "GSI" (Anton 2015) are missing. Synergies also take place in clusters, which today have an increasingly important role in and on strategy, innovation, investment, and prosperity of the firm and economy (Porter 2008). Porter's comprehensive Diamond concept of cluster synergy theory and corporate strategy has also continuously gained more attention and relevance for strategic management, investment, cluster management, and national economic policy formation (Porter 1998; Porter 1996; Porter 2008; Delgado et al. 2014). Clusters also play an important role in innovation, strategy, and industry4.0, with its steadily increasing levels of interconnectivity and interdependence: cluster antecedents (Porter 2008) and prospects are among the key drivers for most recent strategic decision-making. As a result, clusters, markets, trends, and competitors are all a key part of the external strategic analysis. A game-theoretical scenario analysis and an audit of all external factors and context-dependencies are found in the popular PESTEL analysis that is also frequently taught in most business schools. A typical PESTEL analysis comprises all of the relevant political, economic, social, technological, environmental, and also legal factors (the first letters are summarized to PESTEL as a memory aid), before a more in-depth market analysis of rivalry at the segment level is performed. PESTEL dates back to Francis Aguilar's scanning of the business environment, 1967, who summarized the factors ETPS, also at Harvard. Eventually, SWOT analysis, which has a military and martial arts strategy background, is used to identify the business's strength, weaknesses, opportunities, and threats (abbreviated to SWOT, also as a mnemonic aid), and has been taught at Harvard since the 60s (Kotler et al. 2010). SWOT is a symmetrical tool for final strategic decision-making,
based on a comprehensive analysis of all crucial internal (capacities) and external (market) conditions with respect to the firm in the context of competition - and helps finding and aligning a strategic fit between the two. So far, all of these basic models are standalone concepts of strategic planning. They assist in analytical-strategic thinking and as a systematic memory aid. However, they have all stayed formally isolated from one another despite their obvious interdependency. Thus, the next academic step to evolve strategy research is to simply unify these basic models by integrating all individual analytical strategic sub-models, which still remains elusive till today, see e.g. (de Wit & Meyer 2010). Strategy formation requires decision making based on all individual models and a further in-depth analysis of all market segments and organizational levels (de Wit & Meyer 2010). Integration of these models is important, inevitable and desirable, but not available today. ISF is accomplished here and made freely/openly available for everyone.

OBJECTIVE

Identification of a unifying strategy approach to combine the popular HBS strategy models into a single integrative strategy framework (ISF) by visualizing a map of strategic analysis.

RESULTS

In order to perform a final, strategy audit using systematic SWOT analysis, an important prerequisite is to first map the strategic landscape, comprising the external industry and market structure, and all of the tangible and intangible internal potentials and the firm's strategic capacities. This strategic landscape is derived by combining the above models (Fig. 1, bottom). Subsequently, all factors of PESTEL and finally SWOT are distributed among all key drivers, risks, and factors (Fig. 1). The ISF (integrated strategy framework) model shall help to further systematize, schematize, memorize, visualize and integrate all previous singular approaches to allow a more precise overview and better weighting of all individual factors, which is otherwise easily confounded (e.g. due to multiple weighting, or due to multiple strategy network hubs). By using a mapped common strategy framework, ISF now also enables ambidextrous (Rosing et al. 2011), innovative-elaborative, i.e. first explorative and then exploitive, SWOT analysis to be carried out in a more comprehensive and thus more professional fashion (e.g. in order to not forget about one of the individual model, weights or factors, and integration at the right hub). Thus, to achieve this integration goal, in a first approach, these models were aligned to reveal any potential overlap that could be canceled in a unifying model. To illustrate this procedure, Figure 1 also provides a color-code for the unified and combined factors that were hereby concentrated and canceled. For instance, "Firm Strategy and Rivalry" of Porter's 5-Forces and Porter's Diamond (Fig. 1, upper panel), and of the game-theoretical context were unified in ISF and canceled (Fig. 1, lower panel, light red). Additionally, local and international clusters and market contexts are integrated, as well as antecedents and prospects, as symmetrical antonymic pairs can help strategists to deal with dilemmas, ambiguity, and dichotomies (de Wit & Meyer 2010). In the ISF model, the context of rivalry and competition now represents the major key hub (highest network interaction point) of the ISF strategy network topology, and is also the key focus of the final SWOT analysis – due to its interaction with the firm's (S) strength and (W) weaknesses, with all contextual (O) opportunities and (T) threats (see Fig. 1, bottom). Additionally, "Factor" and "Demand" bargain and input/output conditions (green and blue) were unified and the diamond could
thereby be integrated into the 6-Forces model. Once all models were aligned, integrated, and combined, it became possible to separately add all of the external context PESTEL factors, to assay market conditions, to the rivalry hub with the firm. Finally, SWOT analysis is subdivided in (I) external (O) opportunities and (T) threats that cluster in the PESTEL and public-governmental market context; and the (II) internal (S) strength and (W) weaknesses of the firm (tangible and intangible capacities, capital, technology, productivity, skills and abilities). Threats of substitutes and new market entrants are still represented but are now a part of SWOT analysis (the T: threats in the market/industry segment structure). The 6th-Forth of complementors also feeds forward into the rivalry context and co-opetition of complementors, partners, collaborative strategic networking, which can theoretically result in monopolizing networks, is also included. In fact, M&A strategies are today usually accompanied by legal-strategic advisory boards to prevent a dominant juggernaut impression that could cause an antitrust stir. Once SWOT analysis is performed on a general scale, it can be conducted in an increasingly specific and detailed manner that takes more and more of the important marketing, value chain (Porter 2008), and productive potential and agility, and other details into consideration. In ISF, SWOT can be also performed for clusters, competitors, and co-opetitors. Strength and weaknesses of competitors can mirror own threats and opportunities – but not necessarily, as a direct form of competition on the economic efficiency level can be circumvented by differentiation strategies: products and services that differ in their nature, features, and utility purposes to satisfy heterogeneous demand segments via a differing goals of strategy (Porter 2008).

**DISCUSSION**

This is a first successful description of a unifying approach to combine all key strategy frameworks: Porter's 5-Forces, the 6-Forth and all of the environmental contexts, Porter's Diamond, PESTEL, and SWOT analytically structured models (Fig.1). Despite its simplicity, it has yielded a very versatile and systematic integrated strategy framework (ISF) that gains its relevance from harnessing synergistic value and power from integrating all famous, seminal strategy submodels into a complete analytical strategy framework. This new ISF concept can now easily and widely be used to derive new strategic fits from an in-depth firm and market analysis for comprehensive consolidated strategic decision making. ISF provides guidance to build any case-specific strategic parameter landscapes of all influences and game-theoretical scenarios that have to be considered in a more suitably weighted interactively integrated form. Due to the natural star topology of the ISF, which is predicated on the five forces model (Porter 1985), all factors can now be correctly and systematically integrated - including PESTEL - for a subsequently arranged centralized SWOT analysis. This enables a better informed and less biased strategic decision-making due to one map for all questions: hence, it is now holistic enough for a potential integration into new IT strategic management cockpit software systems (e.g. SAP). ISF visualization further helps in this attempt and the visual map is also helpful to educationally derive the logical big picture of all specific analyses, however, the appropriate weights still have to be found specifically from case to case due to very high context-dependency. The ISF map is also a compatible strategy platform to be adapted and elaborated for all types of analytical strategy functions and purposes and for future trends., e.g. for more sophisticated and more detailed mappings (market research, and marketing analytics, and using valuable digital customer data; [while privacy should be better protected than today.]). Thereby, ISF represents a helpful centralized analytical starting point, also for directed and systematic
market segment analysis and predictive in-depth firm capacity assessment, to uncover any future growth and innovation potentials, or to maintain existing competitive advantage, or how to further build on key core competencies. Furthermore, ISF is not only versatile for red ocean and developed markets – it is also highly suitable for blue ocean strategies, less developed markets (de Wit & Meyer 2010), domestic and international strategies, profit and non-profit organizations, and also importantly, also for shared value (Porter & Kramer 2011) and social intrapreneuring (Anton 2015) (GSI) strategies. Put into a GSI-related sustainable macroeconomic environment and context (Anton 2015), ISF would also help to unfold the power to create „many more win-win situation“ for all stakeholders, for all clusters, locations, regions, and countries, and would hereby benefit all people world-wide.

REFERENCES


A New Integrated Strategy Framework (ISF) holistically and better combines Porter's 5-Forces, Diamond, the 6th Force, and the popular PESTEL and Humphrey's SWOT analytical business strategy concepts of competitive advantage and competition.

Figure 1 A New Integrated Strategy Framework (ISF) holistically and better combines Porter's 5-Forces, Diamond, the 6th Force, and the popular PESTEL and Humphrey's SWOT analytical business strategy concepts of competitive advantage and competition.