

## Development Strategy for SMES in Madura Island based on Environmental Analysis

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**Abstract:** The main objective of the research is to exploring the SMEs competitiveness in Madura Island. Furthermore, we will try to formulate and analyze alternative strategy which can be decided by SMEs based on internal and external environment. We used SWOT analysis technique to reaches the objectives. This research used verificative approach and descriptive method. The data and information collected by survey method with interview and quisionare as the main acitivity. The result of the study show that, internal and external environment has a good condition, it means that all of that factors will be support of the SMEs to doing a business. Based on the SWOT analysis, this study has found 10 strategic alternative that can be used for the SMEs which can be clustered in 5 primary strategies. There are the ease of getting a cheaply product, precise information about of industry growth, increase the promotion activity with high technology, increase the education, skills and capability include in the marketing processes or firm growth as well increase the governments role. We discuss our findings and provide directions for future research.

**Key words:** Environment analysis, SWOT analysis, SMEs, skills, support, processes

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### INTRODUCTION

During the last 20 years ago, since, economic crisis in Indonesian causes a reduction of the SMEs performance. This fact did't appropriate with a previous prediction where SMEs growth will be rapidly. The society economic decrease will be turn down a potensial buyers to make a purchase decision. On the other hand, that group community considered of the main consumers for small businesses will be triggered the inevitable impact on Indonesian social and economic reality. Nevertheless, the fact that the economic crisis that occurred in Indonesia is not overly impact on the SMES survival. In contrast, the growth rate of SMES thus chart shows the increase.

Previous studies have shows that, the export contribution on the Indonesian SMEs was increased in 2010-2011 period (Jingga and Limantara, 2015). In 2010, the Indonesian SMEs export amount reached IDR 175,894.9 billion and increased to \$187,441.82 billion in 2011 increased amounting to 16.44%. We're suspect that, the increased of an export activity caused by the SMEs growth has increased. Previous study strengthen our argumentation where by Salim has shown that Indonesian SMEs grew as much as 2.41% from total 55.206.444 units in 2011-2012.

Nevertheless, previous study also founded that the SMEs increase in Indonesia was not followed with high competitiveness (Tambunan, 2008). There's some impact for that condions. One of it, SMEs not able to sustain a

business activity. A business environment is dynamic and it marked by the rivalry increase between a similar business or a large scale firm. With the condition, SMEs choose to find another business that can used to sustain they live. In other side, Li-Hua (2007) explain about the concept of competitiveness as the ability of a firm or an organization to win consistently over the long term in a competitive period. In line with this view, Porter (1985, 1990) explained that the increase of the firm competitiveness is determined from the organization's capabilities in analyzing the environment. From this point, we're suspect that the SMEs inability to sustain a business activities due to lack of ability in analyzing the environment. When SMEs are able to analyze the environment, they may be able to produce an innovative products (Abernathy and Clark, 1985; Barringer and Bluedora, 1999), analyze the capability and skills (Barney, 1986), so, they able to adapt to the technological advances (Murray, 1984; Hitt *et al.*, 1996). We argue that innovative products, capabilities and skills can be generated through technology. However, it needs to highlight that low skills and understanding for small businesses in utilizing a technology caused that the production processes will be done with traditional way. Consequently, beside products less innovative, SMES also inability to produce a low-cost in production process.

The lack of SMEs competitiveness in Indonesia also reflected in the SMES that are in Madura Island.

Factually, the number of SMEs in Madura Island also experienced an increase in quantity. Demographic development, economic growth, social culture community, technological advances, globalization and infrastructure are some of the factors that encourage the development (Hough and White, 2004). Theoretically, the development of environmental conditions should be able to provide advantages for SMES in Madura Island. With the existing environmental conditions, SMEs in Madura Island was supposed to be looking for opportunities and threats and identify the weaknesses and strengths (Porter, 1985; Dess and Davis, 1984; Burgelman, 1994; Tokuda, 2005). Furthermore, the results of the analysis can be used as a basis in determining the strategies that are able to synergize with environmental change (Dess and Beard, 1984; Castrogiovanni, 1991; Lonial and Raju, 2001).

This study aims to investigate how SMES in Madura Island can devise a strategy policy through the identification of strengths, weaknesses opportunities and threats. Will then be drawn up some alternative strategies that may be applied by SMES in Madura Island in the face of environmental changes, so will hopefully be able to improve the competitiveness. Thus, the main research questions are:

- RQ1: How the strengths, weaknesses, opportunities and threats of the SMES in Madura Island?
- RQ2: How to shape a strategy that can be used as a basis for business development for SMEs in Madura Island?

### **Theoretical background**

**Strategic management; An overview:** Strategic management as a discipline originated in the 1950's and 60's. In development, management concept has been investigated from several theoretical points of view. Strategic management is the conduct of drafting, implementing and evaluating cross-functional decisions that will enable an organization to achieve its long-term objectives. As a terminology, some of the researcher has a consensus that strategic management is a level of managerial activity under setting goals and over tactics. Strategic management provides overall direction to the enterprise and is closely related to the field of organization studies. In the field of business administration, it is useful to talk about "strategic alignment" between the organization and its environment or "strategic consistency". One of the major questions in strategic management is to what extent firms should be consistent in their strategy and structure (Lamberg *et al.*, 2009).

One of the strategy definition that is widely used as a reference by researchers in developing this concept as put forward by Mintzberg:

A strategy is the pattern or plan that integrates an organisation's major goals, policies and action sequences into a cohesive whole. A well formulated strategy helps to marshal and allocate an organisation's resources into a unique and viable posture based on its relative internal competencies and shortcomings, anticipated changes in the environment and contingent moves by intelligent opponents (Mintzberg *et al.*, 1995)

This definition describes strategy as a plan or alternatively as a pattern. They argue that strategy is a plan that can be used as a guide in doing a business activities. In this context, strategy is a manager vision and be able to describe the behavior. In further explanation show that, the strategy is a pattern of activity that will be performed in the future. In carrying out that patterns, the manager will be devise a strategy based on predetermined criteria. In drawing up plans and patterns of strategy, managers need to evaluate a condition has occurred previously and prediction of conditions that will be encountered in the future.

In another perspective, Lyles (1990) argues that the first step that needs to be done by the firm in doing a business activities is determine a policy strategies. In this context, the strategic management is defined as:

Strategic management is a process that deals with the entrepreneurial work of the organisation with organisational renewal and growth and more particularly with developing and utilising strategy which is a guide to the organisation's operations (Lyles, 1990)

That description indicates that, the strategy is a guide in the conduct of the firm operational activities. The developed argumentation is strategic planning is the formal ideas of operational planning, extended to the whole firm over a longer time scale. It imply, strategic management is more sophisticated, holistic approach whereas strategic thinking retrogresses the process away from formality but increases the scope of the process. In line with that perspectives, Lamberg *et al.* (2009) suggest that the firm operationalization through a strategy drawn up policy will improve competitiveness. The operational approach described with regard to the extent to which the

company is able to work out the organizational structure and subsequently used to deal with environmental changes that occur.

**A framework for environment analysis:** One of the important factors that need to be explained when the firm will devise a policy strategy is how they are able to analyze the environment (Duncan, 1972; Dess and Beard, 1984; Castrogiovanni, 1991). From previous study, Aldrich (1979)'s suggests that the environment faced by the firm can be characterized into three groups, namely munificence, dynamism and complexity. Munificence munificence related with firm capacity. Definitively, munificence describes the extent to which an environment can support sustained growth. In this category, the environment is a conditions that can encourage the firm growth. In this concept, Aldrich stated that organizations seek out environments that permit organizational growth and stability. Another researchers revealed that the firm growth can be reached if the conditions in industries experiencing growth (Ansoff, 1965; Lieberman and O'Connor, 1972).

A dynamism shows about the environmental stability-instability or turbulence. In these conditions, theoretical perspectives states that environmental dynamics are unpredictability, so, it will impact on environmental stability-instability. Dynamism should be restricted to change that is hard to predict and that heightens uncertainty for key organizational members. Uncertainty will also affect organization structure because as task uncertainty increases, more information must be processed among decision makers to achieve a given level of performance (Galbraith, 1973). Even so, some authors expressed that uncertainty cannot be limited to just one field. Each uncertainty area may have different implications for managerial and organizational practices (Elbanna and Gherib, 2012). Therefore, some researchers provide some recommendations for a firm to face an uncertain environment. For example, a firm can use the market interdependence approaches (Pfeffer, 1987), optimalization capital structure (Simerly and Li, 2000), trusted and given the full responsibility for all their actions (Akgun *et al.*, 2008).

Meanwhile, complexity describes the degree of heterogeneity and the dispersion of an organization's activities (Aldrich, 1979). Nevertheless, a literature search failed to locate any empirical studies using objective measures of environmental complexity as moderators (McArthur and Nystrom, 1991). In environment complexity, Day (1994) provides recommendations for a firm to increase the skills and knowledge that can be achieved through the process the organization, so that, it can increase the asset as well as a few other functions that became the organization key success in improve the competitiveness.

**Strategy; The tools to gain a competitive advantage:** From literature study stated that the firm success in implementation of strategy depends on how they able to optimize resources (Barney, 1986). Theoretical perspective also explains that the resource can be categorize into two parts, i.e., intangible and tangible resources. Studies conducted by Clulow *et al.* (2003) found that intangible assets such as client, trust, reputation, networks and intelltual property is the source of the company's value could be developed. On the other hand, Prahalad and Hamel (1990) explain that the firm uniqueness as well as the inimitability is the source of corporate competitiveness. That description indicates that the strategy is a tool that can be used by the company in achieving competitive advantage. In line with that arguments, Omalaja and Eruola (2011) state that strategy is the mode of plan of action for allocating scarce resources to gain competitive advantage, achieve an objective and capitalize on a perceived opportunity at an acceptable level of risk.

In addition to resources, competitiveness is also affected by the firm capability. Studies conducted by Duncan *et al.* (1988) revealed that capablity relates to ability to produce something unique so that will drive the creation of value for the firm. To realize it, innovative behavior can be used as an approach in achieving competitiveness (Duncan *et al.*, 1988; Vinayan *et al.*, 2012). In line with such thinking, Kumlu (2014) explained that the increase of firm capability can be achieved through knowledge, organizational culture, skills and experience. In our opinion, the combination of several factors that can increase a firm capability will produce something unique and will be impact on competitiveness. Studies conducted by Man (2009) strengthens our arguments whereby the firm capability to be a source of the determination of the strategic decision. In that study, researchers explain that some indicators of firm capability such as an assets, skills, become a determinant in determining the firm competitiveness. The study reinforces the opinion by Dobrev (2007) which stated that the difference of firm capability will have an impact on the ability of firms in revamp the position of competition in the industry.

## **MATERIALS AND METHODS**

**Collecting data:** Secondary data collection was done through the information of SMES in Madura Island and data relating to its development. Primary data collection was done with the spread of a questionnaire about the perspective of the entrepreneurs in SME development process, so that, it can be used to determine the factors that are the strengths, weaknesses, opportunities and threats.

**Population and sample:** The population in this study was small and medium business owners (SMEs) located in Madura Island. In determining the sample, we use a purposive sampling approach that is carried out by taking a subject based on specific objectives. In the process of determining the population, we make the identification of some existing SMEs in Madura Island scattered into several districts. Next, we do the appropriate sample selection criteria have been determined such as the legality of aspects of the effort, the level of income earned in a specific period of time as well as marketing coverage. Based on these criteria, we found 92 SMEs in Madura Island and that amount used as a research sample.

**Data analysis:** In this study, we used two-stage analysis. First, we initiate research activities through the spread of the questionnaire to the respondent, i.e., business owners. In addition, we also conduct the interview to the research subjects. Furthermore, the response of the respondents will be processed and be input to know the SMEs performance that are shown in the table of IFAD (Internal Strategic Factors Analysis Summary/Internal Strategy Factor) and EFAS (External Strategic Factors Analysis Summary/External Strategy Factor). The output of this activity is the form of a map of conditions the performance of SMES in Madura Island.

The second phase is a follow-up of the first phase. Based on the map of the SME performance conditions will then be arranged SWOT matrix analysis. This matrix is used to find out what alternative can be chosen according to the situation of the SMEs. Further based on the map's performance and strategic alternatives that can be created and compiled the SME development model. The output of this activity is in the form of the SME strategy and model of development on the Madura Island.

## RESULTS

**Identification of internal and external factors for SMEs in Madura Island:** Some literature management strategy confirms that the first step in drawing up a strategy is determining the internal and external environmental (Hitt *et al.*, 1996). The strengths and weaknesses identification of organization is a difficult section because the characteristics possessed by the object may tend to be covered. It can be happen when an object didn't view the benefits from the identification results. Nevertheless, the environment identification is an important section in a strategic thinking and it will assist the firm in creating a value (Duncan *et al.*, 1998). The result of the internal environment identification of SMEs in Madura Island indicates that they have a weaknesses in managing of institutional capacity. More specifically, the weakness in

this context lies in the lack of skills and capabilities as well as formal education tends to be low. Our findings have an imply that the lack of standardization in the products including on production process (Table 1).

**Internal and external factors evaluation:** In previous section, we've identified the business environment that faced by SMES in Madura Island. Furthermore, we'll calculate the business conditions that faced by SMES, so, it can be used as an assessment background. It is a good tool used to visualize and prioritize the strenght, weakness, opportunities and threats that a business is facing. Our finding shows that SMEs easily to get an unique product that can be re-selling and SMEs information which can caused a high relationship between each other have a highest weighted score. However, we also found that SMEs in Madura Island not too concern towards promotional activities (Table 2).

From the external environment, SMEs in Madura Island, have the opportunity to survival in a competition. In addition, increasing of the society income also to be an indicators that will be trigger the SMEs sustainability. We're consider that both of the indicators are interrelated. The increased of the society incomes would encourage them to consumption act. The ease of SMEs to obtaining a products that can be re-selling have a high impact on the product variety and it implies to the society interest to do a consumption. Even so, the threat arising from business activities of SMEs in Madura Island is a low facilities, particularly related with comfortable toward to location (Table 3).

**Respondent perception to the SWOT variable:** From the all of internal environment indicators, we're founding that respondents agree that that factors will be influence the SMEs competitiveness. Generally, the mean value of the internal environmental factor is 3.9. It is the mean value of the area quite well. Nevertheless, there were some respondents who answered disagree to the role of internal environmental factors in improving competitiveness, although the amount is not too much. These findings indicate that internal environmental factors needed some attention and be improved alternative solutions to the various problems. Those results also give a description that small business owner realize the importance of the internal environment.

Overall, external environment factors on items are on the area well with a mean of 4.1. It is the mean value of the area but look at the frequency of a respondents answers still disagree though not too significant, so, it can be said that the external environmental factors needed to be upgraded and be attentive to improve a business performance.

Table 1: Internal and external factors for SMEs in Madura Island

Internal factors		External factors	
Strenght	Weakness	Opportunity	Thread
SMEs easily to get an unique product that can be re-selling	Low formal education	There's a government role to develop a SMEs	High technology used to do a business activity
	Low skills and capability	There's a government role to protecting the SMEs	
		Government helps to promote the SMEs product	Low facility, e.g., access to location that make customer un-comfortable
There's an information that gives by another related location, product, also SMEs has a network with each other	Human resources faced by SMEs being a classical problems to do a business activity	High SMEs survival in business activity	Difficulty to offering the product
	Easy to imitable a business	Easily for SMEs to get a re-seller product	
	There's no much promotion	Supplier capability	To be more inovative
		There's much raw material and low price	The amount of SMEs has increase
		The increase of society income	

Table 2: Summary of internal environment factors in Madura Island

Indicators	Index	Weight	Rating	Weighted score (Bobot×Rating)
<b>Internal environment factors</b>				
<b>Strenght</b>				
SMEs easily to get an unique product that can be re-selling	359	0.20	4	0.80
There's an information that gives by another related location, product, also SMEs has a network with each other	387	0.20	4	0.80
<b>Weakness</b>				
Low formal education	352	0.06	2	0.12
Low skills and capability	373	0.05	1	0.05
Human resources faced by SMEs being a classical problems to do a business activity	368	0.05	1	0.05
Easy to imitable a business	363	0.05	2	0.10
There's no much promotion	292	0.02	1	0.02
Total		0.63		2

Table 3: Summary of external environment factors

Indicators	Index	Weight	Rating	Weighted score (Bobot×Rating)
<b>External environment factors</b>				
<b>Opportunity</b>				
There's a government role to develop a SMEs	361	0.05	3	0.15
There's a government role to protecting the SMEs	388	0.05	3	0.15
Government helps to promote the SMEs product	382	0.10	3	0.30
High SMEs survival in business activity	443	0.10	4	0.40
Easily for SMEs to get a re-seller product	384	0.10	3	0.30
Supplier capability	373	0.10	3	0.30
There's much raw material and low price	385	0.05	3	0.15
The increase of society income	370	0.10	4	0.40
<b>Threat</b>				
High technology used to do a business activity	384	0.04	1	0.04
Low facility, e.g., access to location, that make customer un-comfortable	391	0.05	1	0.05
Difficulty to offering the product	367	0.02	1	0.02
To be more inovative	371	0.03	2	0.06
The amount of SMEs has increase	393	0.05	3	0.15
Total		0.84		3.00

**DISCUSSION**

Based on SWOT matrix were analyzed, there are 10 strategies that can be taken as an alternative to the achievement of the goals. The 10's alternative can be used as reference for formulating a model of SMEs development. We argue that the 10 alternatives strategic referable to SMEs empowerment in Madura Island, so

that, it can be used to determine the strengths, explore an opportunities, overcome weaknesses and avoid a threats. Furthermore, the 10 alternative strategy can be grouped into 4 main strategies as follows.

**First alternative strategy:** Increasing the ease in obtaining products with low price and to resale. The SMES in Madura Island easily in obtaining products that

will be sold back at a bargain price and fast will open up opportunities for business development. With products that are easy to obtain with low prices and fast, then SMEs in Madura Island will be able to calculate the percentage of the profits gained from the results of their sales back against consumers. This strategy can be executed by involving a network of entrepreneurs against the manufacturers of products and other institutional as well as enhance the role of the supplier. The role of the suppliers and producers as well as the institutional network of SMEs in Madura Island can facilitate in providing products that will be sold. Consequently, the synergy of that relationship will be able to improve the bargaining position of SMES towards the end of consumer. If the supplier gives or offers a relatively high price, so, it not affordable by SMEs in Madura Island, then they can search for a raw material product from another supplier.

Our recommendations related with the first strategic alternatives is relevant with the study conducted by Duncan *et al.* (1998), Dobrev (2007) and Man (2009). The existence of the network as described by Duncan *et al.* (1998) that the network support in marketing activities and technology will be improve the firm opportunity in achieving competitive advantage. Studies conducted by Dobrev (2007) reinforces that argument, whereby network analysis of the company will be decrease the competitoin pressure in the industry. Further, explained that the network will have an impact on the firm convenience in finding an information about business activities as well as improved social exchange among entrepreneurs.

**Second alternative strategy:** Enhance the accurate information on the development of SMEs in Madura Island. The improvement of accurate information on the development of SMEs in Madura Island becomes a very important factor in developing the business. The improvement of accurate information on the development effort can be done if there is the role of local governments. In providing information on the SMEs development in Madura Island, governments can socialize their products offered as well as produced by the manufacturer as well as SMEs. This step is a very important thing because the information about the superior products that is produced by the manufacturer of the various regions can serve as a medium of communication between SMES in Madura Island and the customers or the public. To overcome, SMEs in Madura Island can take the marketing advantage of a convenience from government such as following the exhibitions which organised by the local government. The government also can form a clusters or region

centers to accommodate products which are marketed by the employers, so that, the process of information dissemination can be more directional.

Empirically, Zehrer (2009) reveals that the SMEs ability in accessing information becomes a fundamental issue in conducting business activities, mainly associated with market information. On the other hand, previous studies have found about the importance of SMES in used of information as a part of a strategy in increased competitiveness (Tambunan, 2008; Fadil, 2015; Dahnil *et al.*, 2014). Nevertheless, in implementing this strategy, there are a few things that need to be prepared. Some researchers give recommendations for SMEs to improve skills (Naman and Slevin, 1993; Tambunan, 2008) and knowledge (Carneiro, 2000; Murphy *et al.*, 2006) in order to be able to access the information.

**Third alternative strategy:** Increase promotional activities through the use of technology. One of the classical problems faced by SMES in the Madura Island in developing a business was the weakness in implementing marketing activities, especially in doing promotions using the technology. During this time, the marketing activities carried out by SMES in Madura Island was done traditionally, i.e., offering products through the outlet. This method causes the process of SMEs development become slow because the potential market is not fully absorbed. On the other hand, actually many societies or other potential customers to purchase products offered by SMES in Madura Island. One of the alternative strategy to address the problems faced by SMES in Madura Island in promoting products is to increase improvement service system promotion and commercialization. This system is not only related to the consummation of the mechanism and the role of the units associated with SMEs in Madura Island but also opens up the possibility of a reorganization of the units promotion and commercialization. With the system, then the efficiency and effectiveness of the promotion implementation can be achieved, so as to increase competitiveness for SMEs in Madura Island can be done.

Alternative determination of a strategy of increased promotional activity supports study conducted by Ozdemirci (2011), Fiore *et al.* (2013), Oztamur and Karakadilar (2014) and Dahnil *et al.* (2014). Theoretically, the promotion is part of the communications activities that can be undertaken by SMES with customers. The effectiveness of these communication activities are able to encourage increased sales, so that, the achievement of profit can be improved. Studies conducted by Dahnil *et al.* (2014) found that the effectiveness of the

promotion can be done by utilizing the technology. Technically, Oztamur and Karakadilar (2014) provides, recommendations for the use of technology as a tool to do a promotion is to harness social media.

**Fourth alternative strategy:** Increase the level of education, skills and ability of employers and labour, either in the process of marketing the product as well as developing business. Some of the improvement has been the central issue for the development of SMES in Madura Island. With the education, skills and high ability will allow SMES in Madura Island to do business expansion and increasing the potential for business growth. In General, employers Bangkalan Regency is more focused on the experience in running a business. The efforts to improve the capability of still not being a priority. The impact posed by low levels of education, skills and abilities of entrepreneurs among others; low level of innovation, the weakness of management efforts, low productivity, poor quality of products offered and the weakness of ability to access venture capital.

### CONCLUSION

Based on the 4 strategic alternatives that formulate for SMEs in Madura Island, we expected that it can used as a basis in improving competitiveness. However, some previous study revealed that the problems faced by SMES is complex and probably cannot be solved with a simple approach. Therefore, we give a recommendations to the future researcher to do an empirically testing related with several alternative strategies. Furthermore, the development of models competitiveness improvement for SMEs, particularly in Madura Island can be done by involving another variables or indicators observation, so it can be more measured.

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