



Strategic Choice Development Using SWOT Analysis: Diversification Strategy of Batik Creative Industry in Blora, Indonesia

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Abstract

Diversification is a strategic choice to improve company competitiveness sustainably. This paper explores strategies and suggests a suitable diversification strategy for micro, small, and medium enterprises (MSME) on a theoretical concentration and resource-based view.. Blora batik creative industry in Central Java, Indonesia, is selected as a case study. We use descriptive analytic derived from quantitative SWOT framework by combining matrix from Internal Factor Analysis (IFAS) and External Factor Analysis (EFAS). We collect data from field surveys and study literature. Respondents are selected purposively based on a result from a focus group discussion (FGD). This paper finds that Blora batik has both positive IFAS and EFAS scores, 0,42 and 0,26, respectively. These indicate Blora Batik has a strong positional value in "quadrant I", which means this industry has suitable strength to exploit opportunities.. Diversification strategy options proposed in this research can help owners and managers of micro, small and medium enterprises to expand the diversity of their markets and products. This study can also be used as a consideration for the government in implementing policies to empower the Batik creative economy through the MSME diversification strategy.

INTRODUCTION

Micro, small, and medium enterprises (MSME) significantly contribute to a country's economic growth (Andriani et al., 2018). Thereby, it is crucial to support their competitive advantage (Sutisna MN & Haizam Mohd Saudi, 2018). Many researchers have studied strategic choice as a means to achieve a company's sustainability (Abuzaid, 2018); however, few of them studied specifically on the strategic choice on MSME (Alharbi et al., 2019). The RBV perspective, has been widely discussed in larger companies, but smaller companies also need to acquire important resources to create SCAs (Szymańska et al., 2017). (Rangone, 1999) provides an explanation of how small-medium enterprises (SMEs) can develop SCA based on the RBV perspective by identifying the importance of three basic capabilities: innovative capabilities, production capabilities, and market management capabilities. Although Rangone has identified entrepreneurs as a special resource in SMEs, it has not yet developed truly applicable measures to achieve SCA (Vance, 2012), shows that core competence has a significant role in gaining competitive advantage, but there is no specific explanation of how it works on MSME. How MSME can use core competence to increase their competitive advantage is still underexplored. Moreover, the role of the business environment as a factor influencing strategic planning and choice is still underdeveloped.

These days, the challenges inherent in the COVID-19 pandemic have changed how a business operates, particularly in Indonesia. Although many MSMEs collapsed, some can recover and grow. MSMEs that still exist in the sense that their business is still running, can still produce and sell their products, mostly dominated by women entrepreneurs. The high commitment of women entrepreneurs is due to previous failures (Nouri, 2021) These companies have a valuable product and can fulfill a specific target market, having cost advantages and overall capabilities that difficult to be replicated (Canh et al., 2019).

This study starts from a research gap on the effectiveness of diversification strategies in increasing competitiveness. The optimal level of diversification is related to the characteristics and

scale of the companies, whether small, medium, or large. There are different arguments from previous research. Some said that if the level of diversity made is higher than the industry standard, it will produce negative performance. Furthermore, unrelated product diversification will reduce performance significantly. Meanwhile, other researchers argued that product diversification positively improves MSME's performance. These show that the diversification strategy in MSMEs is a complementary or substitute strategy depending on the type of diversification strategy adopted (Benito-Osorio et al., 2020). There are still relatively few studies that discuss the decision-making process of MSME diversification business strategy planning. Accordingly, this paper seeks to answer the following questions: 1) What is the process of selecting the MSME diversification strategy? 2) Can the internal and external environment determine the choice of strategy?

This paper aims to describe diversification strategy phenomena in MSME in Indonesia and identify strategic planning by evaluating strengths and weaknesses reflected on IFAS as well as evaluating threats and opportunities that reflected on EFAS (Houben et al., 1999). Our theoretical contribution is on strategic management, specifically related to strategic planning and competitiveness. Meanwhile, our practical contribution is to integrate external and internal factors into the MSME environment.

RESEARCH METHODS

Micro, small, and medium enterprises (MSME) significantly contribute to a country's economic growth (Andriani et al., 2018). Thereby, it is crucial to support their competitive advantage (Sutisna MN & Haizam Mohd Saudi, 2018). Many researchers have studied strategic choice as a means to achieve a company's sustainability (Abuzaid, 2018); however, few of them studied specifically on the strategic choice on MSME (Alharbi et al., 2019). The RBV perspective, has been widely discussed in larger companies, but smaller companies also need to acquire important resources to create SCAs (Szymańska et al., 2017). (Rangone, 1999) provides an explanation of how small-medium enterprises (SMEs) can

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RESULTS AND DISCUSSION

The history of Bora Batik began with the holding of training activities by the Indonesian Office of Trade, Cooperatives, Small and Medium Enterprises in 2010. After the training, participants began to develop batik businesses independently and develop their unique batik characteristics. From every batik MSME, there are about 6-25 employees. They were able to produce around 30 pieces of stamped batik and approximately 15 pieces of written batik per month. Currently, they use social media (*WhatsApp, Instagram, Facebook*, etc.) and brick and mortar stores as a point of sales. The number of batik artisans in 2020 recorded 52 batik artisans, while there were only 35 who still actively produce.

The creative industry is closely related to culture and art (Oakley, 2006). Bora batik motifs are heavily inspired by natural resources, local culinary, and local wisdom. These characteristics make Bora batik products different from others. Types of Bora motifs include 1) Natural resources motifs such as teak, leaves, Green Peacock, and oil pump, 2) Cultural attraction motifs such as Samin motif, Barongan motif, Tayub dance motif, Bora love motif, 3) Culinary motifs such as satay. Each motif has a philosophy that describes the rich natural resources, culture and values of the Bora community. These unique product characteristics become the main advantage. Bora batik also has a remarkable quality of coloring derived from various color schemes from dark colors to bright colors that do not fade, durable and have an artistic

color combination. In addition, they use a piece of high-quality fabric as a base material.

Quantitative SWOT analysis (Hai, 2008) used to extract information from environmental analysis, both internal and external environments (Oreski, 2012). This analysis can determine what can help companies achieve their goals and minimize the obstacles (Suratman et al., 2017) The results of the Blora Batik SWOT analysis is as follows:

SWOT analysis is one of the most reliable and widely used analytical frameworks to analyze

internal and external conditions. With a SWOT analysis, the company position can be determined, allowing the company to implement the right strategy to maintain or develop the business (Hatta et al., 2018) The Blora batik industry has to analyze the strengths, weaknesses, opportunities, and threats in the industry to determine the company's position and then decide suitable strategies according to company or industry conditions to respond to global challenges and compete globally.

Internal Factor Analysis (IFAS)

Table 1. Strength Matrix

Questionnaire					
Group	Number	Key Factors Success	Rating	Weight	Weight x Rating
Marketing Management					
	1	Product well-designed	2.57	0.055	0.140
	2	High quality of fabric and base material	2.57	0.057	0.145
	3	Colour combination match	2.57	0.057	0.145
	4	Product is well packaged	2.43	0.053	0.128
	5	Intellectual property is well	2.14	0.057	0.121
	6	High number of product variations and derivatives	2.29	0.051	0.116
	7	High value for money	2.29	0.055	0.125
	8	Marketing efforts is well managed	2.14	0.055	0.117
Human Resource Management					
	1	High level of local employment	2.57	0.051	0.130
	2	A high number of skilled workers	2.43	0.053	0.128
	3	Minimum wage adherence	2.29	0.051	0.116
	4	Good communication between management and employee	2.43	0.051	0.123

5	A high number of experienced workers	2.71	0.053	0.143
Operational Management				
1	Production planning is well managed	2.00	0.051	0.101
2	The use of natural coloring	2.14	0.049	0.104
3	Waste management is well managed	1.71	0.053	0.090
Financial Management				
1	Bankability and financial access	2.00	0.051	0.101
2	Financial literacy and management	1.86	0.051	0.094
3	Owner financed business	2.43	0.053	0.128
TOTAL SCORE			1,000	2,297

Table 2. Weakness Matrix

Questionnaire		Rating	Weight	Weight x Rating	
Group	Number	Key Factors Success			
Marketing Management					
	1	Designs are perceived as monotone	-1.86	0.047	-0.087
	2	Materials are perceived as low quality	-1.71	0.052	-0.089
	3	The color is perceived as quickly fades	-1.86	0.045	-0.083
	4	limited product variations	-1.86	0.054	-0.100
	5	Does not meet national standard (SNI)	-1.14	0.056	-0.064
	6	Product packaging is poor	-1.71	0.052	-0.089
	7	The product distribution is still limited locally	-1.71	0.049	-0.085

8	Relatively more expensive	-2.14	0.049	-0.106
9	Considered less attractive	-1.57	0.049	-0.077
Human Resource Management				
1	Limited number of batik designer	-1.14	0.054	-0.062
2	Limited training opportunity	-1.29	0.052	-0.066
3	No health insurance for workers	-1.14	0.047	-0.054
4	No clear career path	1.14	0.049	-0.056
Operations Management				
1	No clear organizational structure	-1.00	0.052	-0.052
2	No business license	-1.14	0.049	-0.056
3	All decisions depend on the owner	-1.57	0.052	-0.081
4	Employees are not involved in planning	-1.57	0.047	-0.074
5	Job division and responsibilities are not clear	-1.00	0.040	-0.040
Financial Management				
1	Business capital is very limited	-1.14	0.052	-0.059
2	The owner afraid of debt	-1.43	0.054	-0.077
TOTAL			1,000	-1.456

Internal factor analysis shows the four main strengths of the Blora batik industry are 1) good product quality and color combination, 2) experienced workers, 3) the use of natural coloring, and 4) owner financed business. First, Blora batik has overall exceptional quality. It is produced with durable material, preventing color fading. Moreover, the color combination of Blora batik has a cultural and philosophical background story, creating harmony with one another. Second, the Blora batik industry employs experienced employees who live in and around the region. It shows that Blora batik indirectly helping them to support their surrounding economic and social

condition while maintaining efficiency. Third, the use of natural colors is starting to become a trend among batik artisans. It shows that people become more aware of their social responsibility to the environment by avoiding harmful material that can pollute the environment. Lastly, the Blora batik funds its operation internally. This shows that the community can build a business independently, and they have the freedom to manage their business.

Meanwhile, the weaknesses of Blora batik are 1) limited product variations, 2) limited training opportunities as well as a limited number of designers, 3) business decisions are very dependent

on the owner, and the employee is not involved. 4) The business owner is terrified to take a debt. First, the majority of Blora batik products are only in the form of cloth, this will lead to market saturation. In addition, the sale rotation are very slow. Second, most employees rarely attend training and have limited skills in batik design. Blora batik employees are recruited locally, and in general, these employees can make batik but lack innovation in design or produce variations of batik products. Third, the batik industry in Blora runs as a family business. Each entity is rarely cooperating, while the role of the association and cooperatives are limited. This condition can cause this industry to be easily eroded by external environmental threats. Forth, the majority of the business capital comes

from their own money. These funds are inadequate to support business development. On the other hand, business owners do not favor debt because they do not have a well-managed financial record and access to financial institutions. To turn their weaknesses in this area into strengths in relation to their competitive advantages, it is better if owners and managers of small and medium businesses take more product design development skills courses, as well as marketing management skills, especially marketing digitalization, and financial management related to the courage to take risks for debt.

External Factor Analysis (EFAS)

Table 3. Opportunity Matrix

Questionnaire					
Group	Number	Key Success Factors	Rating	Weight	Weight xRating
MACRO-ENVIRONMENT					
Economic Situation					
	1	Previous interesting economic growth	2.43	0.053	0.128
	2	Low inflation rate	2.14	0.048	0.102
	3	A stable exchange rate	2.57	0.055	0.141
Politics					
	1	Adequate political stability	2.71	0.053	0.143
	2	Low level of civil unrest	2.43	0.045	0.109
Law					
	1	Legal certainty for MSME	2.71	0.055	0.149
	2	A good rule of law implementation	2.71	0.050	0.136
Demographics					
	1	Population distributed evenly	2.71	0.050	0.136
	2	Population income level are increased	2.71	0.053	0.143
Technology					
	1	The development of information and technology	3.14	0.060	0.189

2	Internet and digital literacy	2.71	0.060	0.163
MICRO-ENVIRONMENT				
Competitors				
1	The emergence of competitors trigger creativity in business	2.43	0.068	0.164
2	Competitors have their own market segments	2.29	0.058	0.131
Capital				
1	Easier access of capital	2.14	0.058	0.123
2	Various choices in capital access	2.43	0.063	0.152
3	Low interest rates	2.14	0.060	0.129
Customers				
1	Market growth	2.14	0.058	0.123
2	Customer loyalty level	2.29	0.058	0.131
TOTAL			1,000	2,491

Table 4. Threat Matrix

Questioner	Rating	Weight	Weight	x	
Group	Number	Key Success Factors	Rating		
MACRO-ENVIRONMENT					
Economic Situation					
1		Economic growth tends to decrease	-2.14	0.059	-0.127
2		The China-United States trade war	-2.00	0.053	-0.107
3		Unpredictable exchange rate	-2.14	0.050	-0.108
Politics					
1		The emergence of political euphoria related to the local election	-2.00	0.056	-0.113
2		Large number of political parties	-2.29	0.053	-0.122
3		Regional minimum wage policy associated with politics	-2.00	0.056	-0.113
Law					

	1	Overlapping regulation between the central and local government	-2.00	0.056	-0.113
	2				
Demographics					
	1	Domination of millennial generation which is bored easily	-1.86	0.056	-0.105
Technology					
	1	Technology that might be obsolete quickly	2.00	0.059	-0.119
	2	Demand on continuous investment to keep upgrading technology	-2.14	0.065	-0.140
MICRO-ENVIRONMENT					
Competitors	1	The emergence of new batik artisans / entrepreneurs	-2.00	0.080	-0.160
	2	Competitors are easily replicate the product designs	-2.00	0.068	-0.136
Capital					
	1	The bank demands a high collateral	-1.86	0.071	-0.132
	2	Long process of loan application	-1.71	0.074	-0.127
Customers					
	1	low level of customer loyalty caused by the high number of competitors	-1.71	0.068	-0.117
	2	Trends change quickly	-1.86	0.071	-0.132
TOTAL				1,000	-1.971

First, external factor analysis shows that competitors are the main threat to the Blora Batik industry. Since every region has its own batik, regional competition over the limited market is fierce. However, the high level of competition is also an opportunity for batik entrepreneurs to innovate. The second biggest threat for the Blora batik is the customers' demand is quickly changed. Moreover, the majority of Blora batik product types are only clothing, which has a limited market.

Third, the development of information technology is both a threat and an opportunity to MSME. MSME that cannot adapt to it will lose its market. In contrast, MSME that can adapt can reach a broader market. Forth, financial access could be a high potential opportunity. Currently, there are many options for funding. Well-managed financial access may trigger exponential business growth. The scores from the IFAS and EFAS matrices are then included in the SWOT diagram. The Diagonal intersection formed from that score will indicate the position of the company. Here is a picture of a SWOT diagram for the Blora batik industry.

SWOT Diagram

Y	Opportunity	2.49
	Threat	1.97
X	Strength	2.30
	Weakness	1.46

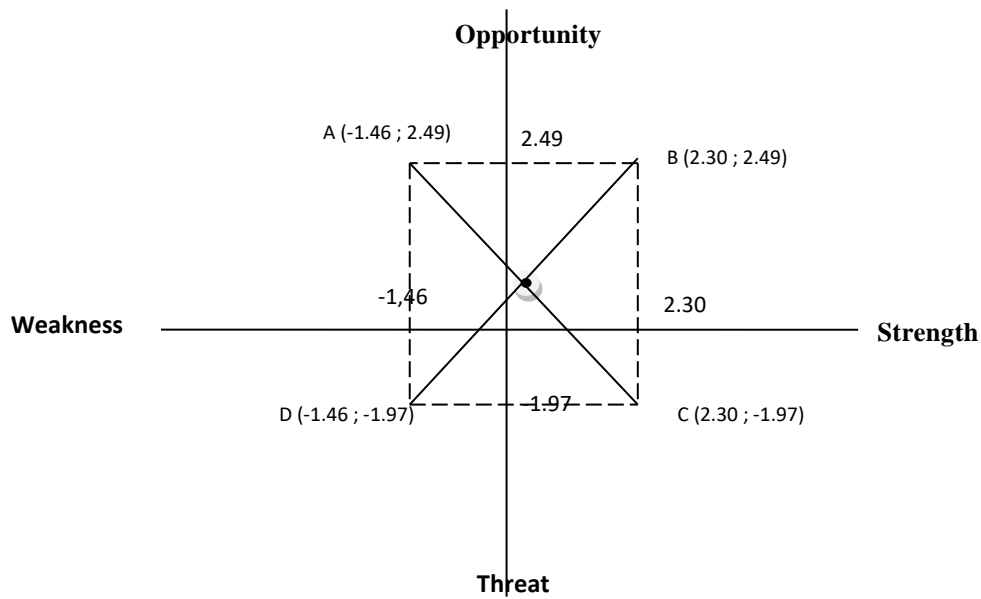


Figure 1. SWOT Diagram
Calculation of Intersecting Diagonal Line

$$\frac{y - y_1}{y_2 - y_1} = \frac{x - x_1}{x_2 - x_1}$$

Diagonal AC

$$\frac{y - 2,49}{-1,97 - 2,49} = \frac{x + 1,46}{2,30 + 1,46}$$

$$3,76 y - 9,36 = -4,46x - 6,51$$

$$3,76y + 4,46 x = 2,85$$

Diagonal BD

$$\frac{y - 2,49}{-1,97 - 2,49} = \frac{x - 2,30}{-1,46 - 2,30}$$

$$-3,76y + 9,36 = -4,46x + 10,26$$

$$-3,76y + 4,46 x = 0,896$$

$$3,76y + 4,46 x = 2,85$$

$$-3,76y + 4,46 x = 0,89$$

$$8,92 x = 3,744$$

$$x = 0,42$$

$$3,76y + 4,46 (0,42) = 2,85$$

$$3,76 y = 2,85 - 1,87$$

$$Y = 0,26$$

As seen in the SWOT diagram, the diagonal intersection is located in the first quadrant. When a company is positioned in the first quadrant (Quadrant I), it indicates that the most suitable strategy is aggressive. Blora Batik has the most advantageous position to take advantage of existing business opportunities with its strength. As shown in a study by (Herliana et al., 2018); (Lee et al., 2009) that quadrant I can overcome the uncertainty of external environmental conditions with the existence of strength and opportunities.

According to Suratman et al. (2017), strategic choices that can be used in quadrant I are Integration, Intensive, or Diversification strategy. Strategic actions can be in specialization, diversification, or restructuring (Andreica, 2013). Based on the characteristics of the Blora batik, the most suitable strategy for its development is the Diversification strategy.

Discussion

The result of the correct interaction between management and its internal and external environment will result in superior performance of MSMEs. In order to operate successfully, MSMEs must think about future goals in terms of their strengths, while avoiding tendencies related to their weaknesses. In addition, the success of MSMEs can be achieved if they can recognize opportunities and threats resulting from external factors. The choice of strategy with its long-term goal is to offer a framework for formulating strategies from observing existing strengths and opportunities, and will provide directions for use in operational actions (Houben et al., 1999). The process of selecting a diversification strategy for the Batik creative industry through an analysis of the strengths associated with the competitive advantage of resources that can support its competitiveness, as well as being faced with various opportunities as external factors that cannot be controlled by the company.

Diversification Strategy Options for SMEs

Based on the external and internal environment analysis, the best strategic choice for Blora batik is the Related Diversification Strategy, namely Concentric Strategy. The concentric strategy is a strategy built on existing core

competencies. We choose this strategy based on several reasons. First, it builds on the product's existing knowledge, requiring minimal resource and knowledge development. Second, this strategy poses minimal risk to the MSME. Furthermore, MSME can use internal capabilities such as owner creativity and manager to innovate, thus lowering costs and efforts.

There are several other considerations that a diversification strategy can be an option to be applied to Batik SMEs. The results showed that of the 52 batik artisans and entrepreneurs in Blora Regency, primarily micro and small businesses in the form of individual or family businesses with no business license and organizational structure. This phenomenon is quite common among Indonesian MSME. Considering that more business entities are in a particular form, the owner acts as a business manager, making decision-making more straightforward and faster. The impact of the Covid-19 pandemic, which is related to the economy, has forced almost all business actors/batik artisans to switch to other businesses, such as food and beverage businesses, where the goal is to survive a pandemic without having to lay off employees. Although this decision is only temporary, most business actors still rely on batik as their primary income.

As stated by previous researchers

Diversification strategies were introduced in 1957 by Ansoff (Ansoff, 1965) Then, Alkaersig et al. (2015) divide diversification into two different categories; they are related to diversification and unrelated diversification. Related diversification occurs when a company expands its activities in related industries based on the current competitive position, such as product knowledge, production capability, marketing expertise, etc. Unrelated diversification is a strategy where companies diversify their business portfolios through participation in new industries unrelated to their core activities. This diversification is often called conglomerate diversification.

The development of Blora Batik is very suitable to use related diversification, which is concentric, considering that there are several strengths of Blora batik that can be utilized to catch opportunities from outside. These strengths include

batik motifs with local wisdom characteristics in Blora Regency, quality of materials and colors that do not fade, different color combinations with competitors, and skilled employees. Related diversification or concentric, built based on the core competencies existing. Eventually, it will become a competitive position. This position relies on knowledge of existing products, operations, value chains, and the expertise to market the product. We choose this strategy because it can minimize the risks that SMEs will face. This strategic choice cannot be separated from the ability to innovate and the creativity of the owner or manager, and internal resources.

Blora batik artisans with their strengths can increase creativity in creating diversified products from batik to catch market opportunities. Batik products are not only in the form of clothing but also can be expanded into bags, clothes, accessories, veils, scarves, *udeng*, wallets, sandals, shoes, and other products according to consumer interests. Furthermore, to explore the motives, designs, and diversification of batik products, the role of the millennial generation is needed to contribute with creative ideas. New ideas become a starting point for identifying new opportunities (Cândeia et al., 2014). Previously, with a limited type of product, Blora batik products have a long sales turnover. Then, they can diversify into a more fast-moving product such as accessories, scarves, headbands that had faster sales turnover.

To support the diversification strategies, cooperative strategies need to be carried out between large and small entrepreneurs to create knowledge sharing and transfer information between MSMEs. The cooperative strategy can increase the creativity of Blora batik entrepreneurs in making product diversification.

Technology Development and Marketing

Nowadays, online marketing becomes more common. In these conditions, MSMEs need to optimize online marketing and digital branding to communicate with their consumers (Meher et al., 2021). Consumers can access product information only by touching their smartphone and, more importantly, can be accessed anytime and anywhere (CIUREA & FILIP, 2015). Blora Batik industry can accelerate its development by using

online-based marketing but not leaving offline marketing either. This technology offers the means to make more attractive presentations and to communicate to a broader consumer (Stefan et al., 2021). Indonesian E-commerce has achieved a practical operational level that is expected to shape Blora products' image, especially batik. This is supported by previous research that said the creative economy strategy for developing art visualization in the Southeast Asian region focuses on digital technology (Oakley, 2006)

The marketing process begins with analysis and prioritizing ideas and information. Then, we decide on clear marketing goals and targets. Marketing activities are not a constant process and have various objectives over time. The primary marketing communications are advertising, sales promotion, public relations and professional sales (Cândeia et al., 2014). The IT system as an online marketing tool must include these activities, not only to sell products but also to build a system that can establish sustainable relationships with consumers. In order to cope with increasing new competition. The marketing activities can focus on various websites, presentations, and promotional activities by special departments (Cândeia & Bogan, 2013). Considering the limitations of IT knowledge from MSME players, Blora Batik MSME can seek support from marketing agencies to provide appropriate promotional and online marketing services.

CONCLUSION

In this paper, we offer a case study on how MSME can develop its strategic choices using external and internal factors (EFAS & IFAS) and SWOT framework. By interpolating IFAS and EFAS scores, we find Blora batik creative industry is located in the first quadrant. The suitable strategy for the first quadrant is to exploit strengths by seizing the opportunities. Internally, the strengths of Blora batik are related to its intangible assets, which is cultural and historical knowledge about batik motifs. These intangible strengths are difficult to replicate by competitors and can be a substantial competitive advantage. Externally, there are technological opportunities that can an alternative diversification strategy, allowing MSME

digitalization. These opportunities might help Blora batik expand its market and enrich motif variations and diversify the product types.

Within the framework of this research, we choose to concentrate on the foundations of a resource-based view and resource theory which is more responsive to internal strengths and weaknesses because it is an important component of the strategic management process. MSME owners and managers need to take action to be able to distinguish which are their strengths and weaknesses. Strengths in the field of human resource management, especially in the field of competence and high experience in the arts, can be relied on to respond to opportunities and challenges. Furthermore, the weaknesses of the marketing and production management aspects need to be improved so that they become strengths. The development of the idea of diversifying the creative industry of Batik will produce a variety of batik fashions with a target market for adults and millennials, and can be used for formal events as well as for everyday and comfortable. Batik fashion products still need to be enriched with motifs and designs, and further need to be tested in the market. Locality-based Product Design expertise should be expanded by attending a lot of training

Empowerment to support the development of the Batik creative economy by implementing a diversification strategy that utilizes internal resources as a source of competitive advantage. Theoretically, this research supports the concept of determining the choice of diversification strategy which is part of the resource-based view, because it further explains the internal resources of the company in increasing competitive advantage. The strategic decision to choose a "related diversification" strategy can be utilized by MSMEs in conditions of growing industrial opportunities and the company has strength in the field of human resources, especially the availability of experienced local workers.

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