

UDC 334

THE POLICY MODEL STRATEGY FOR THE DEVELOPMENT OF SME BATIK BLIMBING MALANG USING A BALANCED SCORECARD METHOD

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ABSTRACT

This research was conducted to formulate a strategic policy model for the empowerment of SMEs using a Balanced Scorecard (BSC) method initiated by SWOT analysis. The analysis was intended to determine both internal and external factors that influence SMEs. The analysis showed the current position of the SMEs and proposed the most appropriate strategy to apply. This results of this research showed that SMEs that played in batik industry were in a good condition. To face various business challenges, the SMEs were suggested to apply the diversification strategy. This research resulted in four strategies that were recommended to apply seen from the perspective of the Policy Model that was measured from the work programs. The four perspectives included; Financial Perspective, Customer Perspective, Intern Business Perspective, and Learning and Development Perspective. Those four perspectives of policy model have covered all of the aspects in business including capital, market, product quality, marketing and human resource. Each indicator in the policy model should be implemented by applying it in every government policy program.

KEY WORDS

Policy model, SME, balance scorecard, public service.

Batik has been acknowledged by UNESCO as an indigenous cultural heritage of Indonesia. Batik is an iconic Indonesian cultural asset that has strong historical value and batik shows the owners' social status. Besides being well-known as the city of education, Malang is also known as a city that produces authentic batik. Malang city is also famous for its tourism and culinary sectors. Moreover, Malang is also the center of crafts including handicrafts from Malang, ceramic home industry, sculpture, furniture, and so on. Batik that originated from Malang is called as Batik Malangan, which patterns are inspired by various elements of Malang. Even though Batik Malangan is not as popular as other batik from other regions, Batik Malangan batik has a beauty that is no less good than the ones from other regions. Batik Malangan has a unique style, making it a valuable asset to compete the products from other regions.

Batik Malangan originated from batik which was worn in traditional ceremonies since the XIX century. The batik has Sidomukti Malang pattern with white box decoration in the middle called *Modhang Koro*. This motif is used as *udheng* (male) and *sewek* (female) in formal events among all society levels. Batik Malangan has three basic components of batik, namely *tanahan* or base taken from batik motifs in Badut Temple. The second component is the basic motifs (ornamental fill) which shows the pictures of Tugu Malang flanked by lion's hair on the left and right sides as the symbol of Malang City. The third component is ornamental motifs for *tumpal* (edge and filling) that consists of three tendrils forming a chain. The flower tendril ornament describes Malang as a city of flowers. Batik crafts are also found in Yogyakarta, Solo, Pekalongan, Banyuwangi, Madura, Lasem, Tasikmalaya, East Kalimantan, and Bali.

Tight market competition demands innovations to support the existing market share of Batik Malangan. In addition, innovations can help SMEs to earn higher profit. One of

innovations proposed by Batik Malangan is handmade Batik Malangan. Batik art is an art of drawing on cloth used for clothing. The initial process of batik must be done carefully it often requires batik craftsman to incise a series of points to obtain a complex batik motif. The final product is in the form of a piece of batik cloth with beautiful and interesting pattern. Batik is not only needed by a community as clothing, but people often also associate batik with social class. Batik fabrics with certain motifs and colors reflects the social status of the wearer. Multi functions batik and the variety of motifs and colors have certain important role (Latifah, 2010). The new innovation carried out by Batik Malangan industry is expected to bring higher profit for batik entrepreneurs.

The focus of this research was on in-depth analysis on the potential mapping of batik which characteristics combine the aspects of business, social and institutional innovation to improve the business performance of batik entrepreneurs. This research was conducted in Batik SME in Blimbing, Malang since the location was considered strategic, while the SME was empowered by Malang City Government (BAPPEDA Malang City, 2009). The opportunity to participate in the development of batik entrepreneurship which might bring positive influence to social welfare, intrigued the researcher to conduct this research in order to analyze the mapping the potential of batik to support the business performance among batik entrepreneurs in Malang. Moreover, this research is expected to give benefits for not only universities but also for practitioners including the government, society and market participants.

METHODS OF RESEARCH

The design of this research consisted of two stages. The first stage was the mapping of various issues experienced by actors and stakeholders in order to identify the problems related to SME and batik innovation development. At this stage, a model was proposed and tested using a qualitative approach. This stage was done to answer the research problems regarding to the procedure of the research. The second step was the mapping of strategies using a quantitative approach. At this stage, the identified strategic issues were reconfirmed to stakeholders through survey. The design of this research helped the researchers to answer the research problems in the first and second stages which questions were naturalistic (qualitative) problems. The researcher also tried to combine or expand the findings obtained from one method to the ones from other methods. This strategy was carried out in the form of qualitative interview which had been done to obtain adequate explanations prior to the survey done with a number of samples to obtain general findings from broader population (Creswell, 2010).

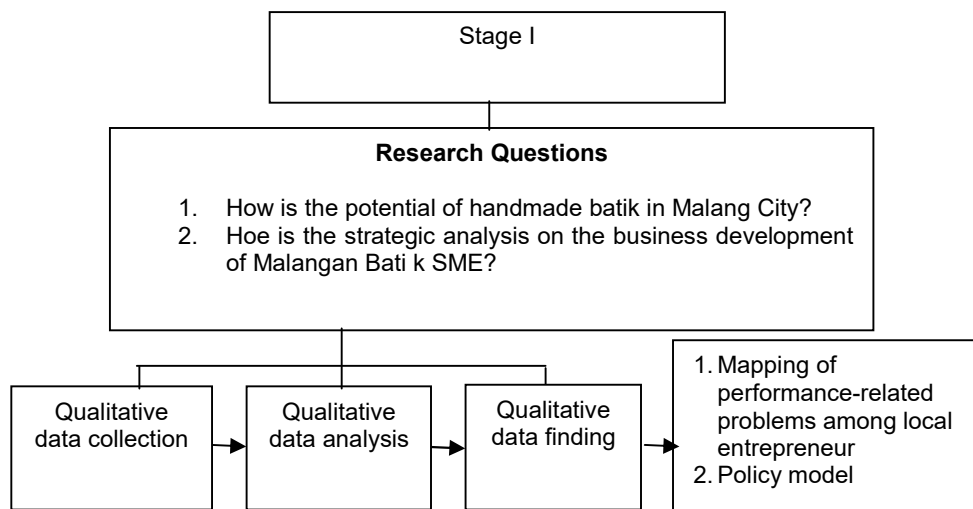


Figure 1 – Research Scheme

It is presented in Table 1 that the determination of policy model strategy using the balanced scorecard method starts with an assessment to identify various external and internal factors of a company. One of the methods that can be used in this assessment is SWOT Analysis. The results of the assessment were used to develop the appropriate strategy to be applied by SME entrepreneurs. In this case, the strategy should regard 4 (four) perspectives; financial perspective, customer, internal business processes, and learning and growth. A mapping strategy should be prepared to explore the causal relationship in each strategy. After that, scorecard in the form of a table that displayed the targets and achievements of each strategy was developed.

RESULTS OF STUDY

A quantitative data analysis was also administered to measure and identify the internal and external factors that influence the company. SWOT analysis was selected as an analysis method, while the measurement was the Balance Scorecard method. Balance Scorecard measurement administered toward SME of Batik in Blimbing Malang was initiated by the identification of both internal and external data. The internal and external data of SME Batik in Blimbing Malang were identified as follows.

Internal Data of SME Batik Blimbing.

Strength:

- As a branding image (local product) of Malang City;
- Supports from the regional government in the forms of training and marketing assistance;
- The utilization of modern and widely available equipment;
- Innovative and varied product quality;
- Active use of internet as a media for promotion.

Weakness:

- Limited space for business development;
- Limited quality of human resources;
- Limited amount of capital;
- Low market demand upon batik products;
- Problems related to internal communication within an organization (miscommunication often occur between employees and owners).

External Data SME Batik Blimbing.

Opportunity:

- Easy-to-obtain raw material;
- High rate of tourism visit to Malang;
- Weak competitiveness of handmade batik;
- Favorable relationship with private sectors and universities in batik production and marketing;
- The availability of gallery/facilities for batik exhibition from the Regional Government.

Threat:

- Challenges in seeking for skilled batik artist in Malang;
- Unfavorable weather;
- The increasing number of printing batik entrepreneurs that compete the market of handmade batik;
- Lack of awareness and attention from the young generation to preserve batik as a national heritage;
- Unstable national economy.

SWOT Analysis. SWOT analysis was considered as one of approaches to use for the determination of the most appropriate basic business strategy. Rangkuti (2006) explains that SWOT analysis is a systematic identification of various factors to formulate an organizational strategy. This analysis takes into account various logics that can maximize the strengths and opportunities, while at the same time simultaneously minimize the weaknesses and threats.

Table 1 – Scoring and Weighing of the Strength

No.	Strength	Score
1	As a branding image (local product) of Malang City	9.3
2	Supports from the regional government in the forms of training and marketing assistance	8.3
3	The utilization of modern and widely available equipment	8.3
4	Innovative and varied product quality	8
5	Active use of internet as a media for promotion	8.3
Total		42.2

Table 2 – Scoring and Weighing of the Weaknesses

No.	Weakness	Score
1	Limited space for business development	6.8
2	Limited quality of human resources	6.8
3	Limited amount of capital	7.7
4	Low market demand upon batik products	6.5
5	Problems related to internal communication within an organization (miscommunication often occur between employees and owners)	6.3
Total		34

Table 3 – Scoring and Weighing of the Opportunities

No.	Opportunity	Score
1	Easy-to-obtain raw material	8.8
2	High rate of tourism visit to Malang	7.7
3	Weak competitiveness of handmade batik	4.7
4	Favorable relationship with private sectors and universities in batik production and marketing	7.2
5	The availability of gallery/facilities for batik exhibition from the Regional Government	6.8
Total		35.2

Table 4 – Scoring and Weighing of the Threat

No.	Threat	Score
1	Challenges in seeking for skilled batik artist in Malang	6.5
2	Unfavorable weather	6
3	The increasing number of printing batik entrepreneurs that compete the market of handmade batik	5.5
4	Lack of awareness and attention from the young generation to preserve batik as a national heritage	5.8
5	Unstable national economy	5.5
Total		29.3

X Axis = Total Strength (S) - Total Weakness (W) = 8.4

Y Axis = Total Opportunity (O) – Total Threat (T) = 5.9

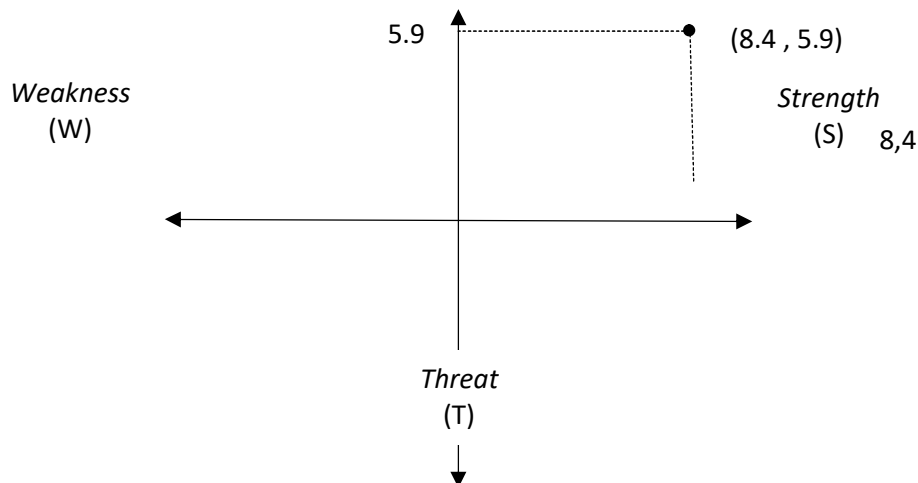


Figure 2 – The Quadrant Chart of SWOT Analysis of SME Batik Blimbing

SWOT analysis was administered to compare the external factors and internal factors. External factors consisted of opportunities and threats, while internal factors consisted of strengths and weaknesses. The analysis of internal and external factors (Harper, 2000) was then followed by weighting each value of the strengths, weaknesses, opportunities and threats. The assessment was carried out by 6 (six) experts of SME Batik in Blimbing.

The score was obtained from the average score for each point. Value of 1 (one) shows the weakest condition while the value of 10 (ten) indicates the strongest conditions. The weighing was also the average score obtained in the expert assessment which score indicate the importance of each factor as seen in tables 1,2,3 and 4.

Seen in Figure 2, SME Batik Blimbing is located in the first quadrant (1). This position indicates that SME Batik Blimbing is a strong batik producer that has various opportunities. According to (Robinson, and Pearce, 224: 2014) There are three (3) strategies that are suitable to apply in quadrant I, namely: a) Horizontal integration; when a company's long-term strategy is made through the acquisition of one or more similar companies which operate at the same stage marketing production chain. Such acquisitions eliminates competitors and make provide easier access to new markets. Horizontal Integration is regarded as an attractive strategy as it quickly expands the geographical scope of a company's operation, increases market share, improves the knowledge, expands its product lines, and increases the efficiency of capital use. b) Concentric diversification; a strategy that involves business acquisition of companies that are superior in terms of technology, markets, or products. With this main strategy, the selected companies will have higher level of compatibility with the current business run by the acquiring company. Concentric diversification makes an ideal strategy when the profits of the companies are combined to increase the strengths and opportunities and reduce the weakness and exposure to risk at the same time. Thus, the acquiring company should seek for new businesses with similar products, markets, distribution channels, technology, and resource needs but hey are not identical to the previous business. This kind of acquisition results in synergy instead of interdependence. c) Joint ventures. Joint venture is a major strategy applied when some companies are joint to operate for mutual benefit. Strategic managers are always careful with joint ventures since this strategy does not only open new opportunities with shared risks, but it often limits the discretion, control, and profit potential of each partner.

In the context of business development of SME Batik Blimbing, the Concentric Diversification strategy is rather recommended regarding to the fact that the business is in a good condition. The use of this strategy will allow the SME Batik Blimbing to optimize the utilization of technology, expand the market and products. In addition, the SME Batik Blimbing batik UMKM also sells batik supplies and materials including batik media in the form of cloth and tools such as *canting*, batik dye, and wax.

Strategic Goals. Regarding to the selected strategy, the next step was administered by grouping the strategy into 4 (four) perspectives of the Balanced Scorecard. The perspectives include; financial, customer, internal business and learning and development perspectives. The classification of those strategies is presented as follows.

- Financial Perspective: Income Improvement, Capital Return;
- Customer Perspective: Customer Satisfaction Improvement, Promotion Boost;
- Internal Business Perspective: Product Quality Enhancement, Production Space Procurement, Innovation Development;
- Learning and Development Perspective: Improvement of Human Resource Quality, Communication Network Enhancement, Human Resource Productivity.

Strategy Mapping Using Balance Score Card Perspective. Giannipoulos, et al (2013) asserts that every perspective in the Balance Scorecard must be interconnected. Strategy maps are media that show the relevance of each perspective. Strategy maps provide an overview of the relationship between one perspective and another perspective and indicate the causal relationship that communicates the message of the strategy to all divisions of SME Batik Blimbing as seen in Figure 3.

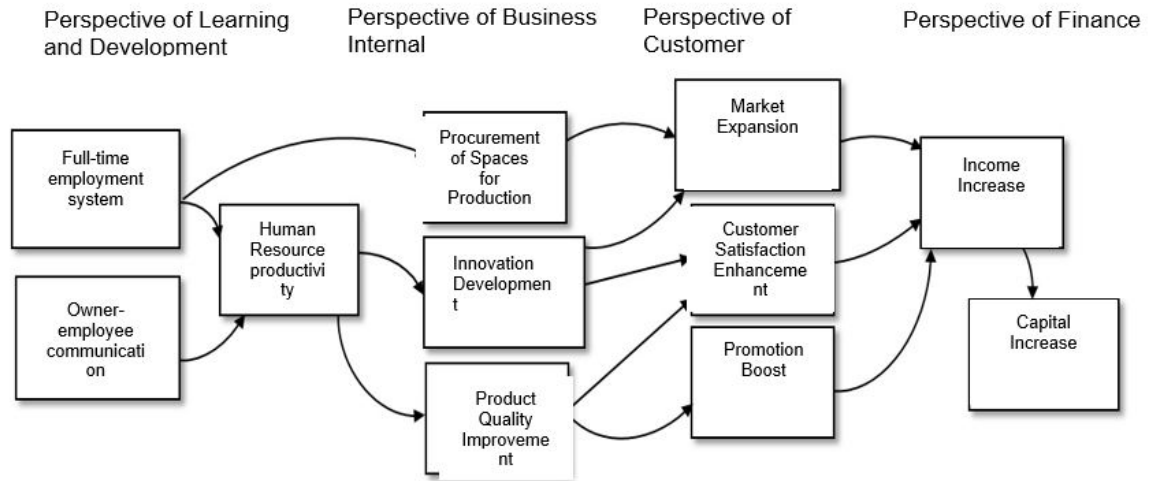


Figure 3 – Strategic Map of SME Batik Blimbing

Scorecard. There are two types of measurements in the Balanced Scorecard, namely performance outcomes (outcome lagging measurement) and drivers of performance (performance leading measurement). Tables 5-8 show the measurement indicators used in this research for target in each balanced scorecard perspective.

Table 5 – Financial Perspective

Strategy	Measurement
Increase in capital resource	Open capital access for stakeholders
Increase in income	Income growth

Table 6 – Customer Perspective

Strategy	Measurement
Market Growth	Customer Loyalty
Improvement in Customer Satisfaction	Customer Satisfaction Index
Promotion Boost	Active Promotion Using Internet Media

Table 7 – Internal Business Perspective

Strategy	Measurement
Production Space Procurement	Broader space for batik production
Innovation Development	Shorter cycle
Improvement in Product Quality	Better marketed products

Table 8 – Learning and Development Perspective

Strategy	Measurement
Communication enhancement between owners and employees	Regular intern organizational communication forum
Upgrade from contract worker employment to full time employment	Higher number of full-time workers
Human Resource Productivity	Percentage of batik production

DISCUSSION OF RESULTS

The strategic target in increasing and opening up access to capital is seen from the capital capability of investors who collaborate with SME Batik Blimbing. This criteria can be measured from the current achievements of SME Batik Blimbing, the stakeholders involved the business and the availability of CSR fund that involved universities and private sector as capital provider. If the previous capital generated from the private loan can be paid off, it will be easier for SME Batik Blimbing to access other capital sources. To open broader capital access, SME Batik Blimbing has to earn 80% higher business profit by 2018.

The strategy to increase customer satisfaction shows that the targeted satisfaction of 75% must be achieved by 2018. This target is an optimistic target that can be reached by offering service improvement program for customers. FGD can be taken as an initiative or program with loyal and wholesale customers. Webster (2000) in his scientific article states that, marketing strategies require good coordination and communication between resellers and consumers who are the target of the improvement to maximize product value. While the target of market development strategy is the level of aggressiveness in product marketing toward the current existing markets for market expansion and promotion. Land procurement has been chosen as a strategy to increase the product demand within a certain period of time indicated by similar indicator as market expansion; product quantity for sale in both old market and new market. Hence, the company targeted the demand to reach 70%.

The initiative carried out by Batik Blimbing Malang UMKM to achieve this target was in the form of pull marketing or market pressure and by selecting the target markets. Pull marketing is suitable to be applied in developing trading companies which already have certain brand image among the community (Ballard, 2011). This strategy is certainly appropriate to be applied in SME Batik Blimbing UMKM in developing its market.

The suitable strategy for product quality improvement is the appropriateness between quality and price. Based on the results of interviews regarding to product quality, SME Batik Blimbing was able to gain trust in Malang regional market as a benchmark for batik in Malang City since the industry has been able to produce unique batik and stamp batik or printing.

The second strategic goal is to improve the service quality. The strategy to achieve this goal relates with the average time needed to meet customer demand. At the present condition, SME Batik Blimbing could complete customers' demand within three weeks which is considered too long. Therefore, the company has set the completion target within 14 working days (two weeks). This target can be achieved by determining the standard time for product completion. The third goal is to increase the production capacity. At the present time, the SME Batik Blimbing run the production of new products once in every 3 (three) months which often referred to as seasonal products. Regarding to the need of higher production capacity to respond to market demand, SME Batik Blimbing has set a target to produce new product once a month. The action related to the program will be done in the form of competition program for both internal and external parties.

The last target of this perspective is the innovation development. The key to the success of this target relies on the length of time needed for the company to produce new products, starting from the idea collection up to the final ready-to-market products. In this case, the batik company set the maximum time of 1 month. The action that will be carried out to achieve this product is survey toward the market demand upon new products.

The last perspective is the learning and development perspective. There are 5 (five) targets of this strategy. The key to the success of the first goal achievement is by aligning personal goals indicated by the number of employees who have set their individual development plans in accordance with the Standard Operating Procedure or SOP. The results of interviews done in this research showed that only 25% or only top management and some middle management have aligned their personal goals with the SOP. Therefore, SME Batik Blimbing Malang needs to have the number increased by 75% in 2018. The action program carried out by the company is in the form of SOP socialization program for employees. Through this program, each individual will have clear idea about the standard that must be fulfilled to achieve the desired corporate target.

The key to the success of human resources (HR) improvement is on the number of full-time employees hired by a company within certain period of time. To support better innovation, it is necessary to continuously improve the production capacity and human resource quality. Based on the results of the interview done with employees of SME Batik Blimbing, the company had not yet set a fixed time to hire full-time employees. This made the employees lack of commitment and the might resign from their job at any time. Therefore, the company need to create new employee contract system by 2018. The action program carried out by the company is assessing the current capability of its human resource.

CONCLUSION

The results of the SWOT analysis done in this research shows that SME Batik Blimbing Malang is currently in a good condition and it has broad opportunities to maximize its future business targets. The targets can be achieved using appropriate strategy that focuses on the company which is located in Malang, by improving its business performance. It is also necessary that the company apply new strategy to optimize its strengths and opportunities. The strategy recommended for the companies is the use of concentric diversification. This strategy is considered appropriate to apply as the SME Batik Blimbing is currently in a good condition. The use of this strategy allows the company to optimize its technological potential, expand the market, and offer new products. In addition, SME Batik Blimbing does not only sells batik as a final product, but it also sells batik materials and equipment, such as batik media in the forms of cloth, tools such as *canting*, batik dye, and wax.

Concentric Diversification is a business strategy that involves the acquisition of businesses over companies that acquire better technology, markets, or products. Using this strategy, a company will be able to run new businesses with similar compatibility to the previous business. Concentric diversification is ideal when the combined profits of the company are able to increase the strengths and opportunities and reduce the weakness and exposure to risk at the same time. Thus, the acquiring company should seek for new businesses related to similar products, markets, distribution channels, technology, and resource needs, but it should not be identical with the already possessed business. Thus, the acquisition will result in synergy instead of interdependence. The suggested programs that must be carried out by the company include (a) opening the access to capital from other existing stakeholders, (b) implementing reference sales programs, pull marketing and marketing target programs, (c) determining the standard length of production time, (d) carrying out design competency programs and administering market surveys, (e) conducting socialization program of corporate SOP to employees, and implementing full-time employment system and improving the communication between owners and employees, (f) assessing the capability of the current human resource, (g) giving rewards/bonus when the determined targets are achieved, and (h) improving the competency profile.

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