

## **A PROCESS OF CREATING BUSINESS PLAN FOR MICROFINANCE INSTITUTION Case Study of LPD Mas, Gianyar, Bali**

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### **ABSTRACT**

Penyusunan rencana bisnis strategis biasanya bertujuan untuk memperbaiki praktik operasional sebuah perusahaan saat ini dan mempersiapkan tindakan-tindakan yang perlu dilakukan dalam menghadapi pasar masa datang serta kondisi lingkungan yang selalu berubah agar perusahaan tersebut mampu untuk bertahan (*sustainable*) di tengah ketatnya persaingan usaha. Dengan menggunakan pendekatan manajemen strategis, penyusunan rencana bisnis strategis tersebut merupakan hal yang lazim dilakukan oleh perusahaan-perusahaan besar. Namun demikian, apakah pendekatan manajemen strategis tersebut dapat juga diterapkan untuk sebuah perusahaan kecil? Paper ini menunjukkan bahwa pendekatan manajemen strategis dapat juga diterapkan untuk sebuah perusahaan kecil. Dengan menggunakan analisis SWOT (*strengths, weaknesses, opportunities, dan threats*) paper ini menguraikan proses penyusunan beberapa elemen rencana bisnis strategis dari sebuah lembaga keuangan mikro (Lembaga Perkreditan Desa) di Bali.

**Key words:** *microfinance institutions, SWOT analysis, business plan.*

### **INTRODUCTION**

Creating a strategic business plan or strategic planning refers to a process of discovery and awareness creation of an enterprise to envision its future and develop the necessary procedures and operations to achieve that future as environmental (market place) changes are identified and related to relevant enterprise strengths and weaknesses (David, 2001, Flavel & Williams, 1996, Fleisher & Bensoussan, 2003, Kuratko & Hodgetts, 2004, Pearce II & Robinson, 2003, Thompson & Strickland III, 2001). Thus, the strategic planning process involves more than simply extrapolating current trends or predicting and anticipating the future. It represents a process through which organisation members attempt to create their future, but with due regard paid to the realities of their external environment and internal capabilities. The aim of creating a strategic business plan is to improve on how an enterprise is operating today and the need for actions to prepare for future's markets and changing environment conditions (Thompson & Strickland III, 2001, p.16). For example, a study (Hopkins & Hopkins, 1997) reveals that a strategic business plan has direct, positive effect on banks' financial performance, and mediates the effects of managerial and organisational factors on banks' performance.

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This paper attempts to present the process of creating some elements of business plan of a microfinance institution – Lembaga Perkreditan Desa (LPD) Mas of Ubud - in Gianyar, Bali. The first part of this paper discusses the theoretical basis concerning the strategic planning process and the methodology used in this study. The second part describes the history and institutional arrangement of the LPD Mas. The third part presents the summary of the SWOT analysis of the LPD Mas. The last part consists of conclusion and recommendation

### **THEORETICAL BASIS AND METHODOLOGICAL ISSUE**

Generally the strategic planning process involves three activities that are strategy formulation, strategy implementation, and strategy evaluation (David, 2001, p.5-6). The strategy formulation is the focus of the strategic planning activities in this study since the last two activities — strategy implementation and strategy evaluation — are beyond the scope of this study. The strategy formulation activity includes defining the enterprise's mission, specifying achievable objectives, and developing strategies (some elements of business plan) to enable accomplishment of objectives (Flavel & Williams, 1996, p.4, Thompson & Strickland III, 2001, p.17).

A mission statement of an enterprise is a unique purpose that sets it apart from other companies of its types and identifies the scope of its operations. The mission statement describes the enterprise's product, market, and technological areas of emphasis in a way that reflects the values and priorities of the strategic decision makers (Pearce II & Robinson, 2003, p.13). David (2001, p.9) and Pearce II and Robinson (2003) point out that since social responsibility is a critical consideration for an enterprise's strategic decision makers, the mission statement must express how the enterprise intends to contribute to the societies that sustain it and distinguish one business from other similar firms. In a slightly different but essentially similar ways, David (2001, p. 9) defines mission statements are as enduring statements of purpose that distinguish one business from other similar firms. A mission statement identifies the scope of a firm's operations in product and market terms. It addresses the basic question that

faces all strategists: What our business? A clear mission statement describes the values and priorities of an organisation (Kaplan & Norton, 2004, p.43). Developing a mission statement compels strategists to think about the nature and scope of present operations and to assess the potential attractiveness of future markets and activities. A mission statement broadly charts the future direction of an organisation. In short, a mission statement defines what business the enterprise is *presently* in and conveys the essence of “who we are, what we do, and where we are now.” (Thompson & Strickland III, 2001, p.32).

Objectives can be defined as specific results that an organisation seeks to achieve in pursuing its basic mission (David, 2001, p.11). The purpose of setting objectives is to convert managerial statements of business mission into specific performance targets – results and outcomes the organisation wants to achieve. David (2001) argues that objectives should be challenging, measurable, consistence, reasonable, and clear. Thompson and Strickland III (2001, p.9-10) suggest that an enterprise management has to set financial objectives and strategic objectives. Financial objectives concern the financial results and outcomes that management wants the organisation to achieve, such as profitability and productivity. Strategic objectives aim at results that reflect increased competitiveness and stronger business position, such as relative dominance in the marketplace.

Strategies are the means by which long objectives will be achieved. An enterprise's strategy represents management's answers to fundamental business questions such as concentration on single business, diversification, geographic expansion, product development, and market penetration (David, 2001, p.11, Thompson & Strickland III, 2001, p.10). Thompson and Strickland III (2001, p.12) point out that enterprise strategies concern *how*: “how to grow the business, how to compete rivals, how to respond to changing market conditions, how to manage each functional piece of the business and develop needed organisational capabilities, how to achieve strategic and financial objectives.” However, it is worth bearing in mind that the essence of strategy is in the activities – choosing to perform activities differently or to perform different activities than rivals -, otherwise a strategy is nothing more than a marketing slogan that will not withstand

competition (Porter, 1996, p.64). Hence, the formulated strategies have to be based on the analysis of both external and internal factors facing the enterprise the so-called SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis.<sup>2</sup>

A SWOT analysis is conceptually simple and comprehensive and it can be applied to many facets of an organisation. These factors have made it one of the most popular models, particularly for determining an organisation's ability to deal with its environment (Fleisher & Bensoussan, 2003). SWOT is part of a more encompassing analysis of an organisation's situation which is viewed as one of the fundamental elements of strategy formulation (Fleisher & Bensoussan, 2003, Thompson & Strickland III, 2001, Wehrich, 1982). Situation analysis typically consists of both external (macroenvironment) and an internal (microenvironment) component (Fleisher & Bensoussan, 2003, Wehrich, 1982). Environmental analysis is the process of scanning and monitoring the environment to identify both present and future positive (opportunities) and negative trends (threats) that may influence the firm's ability to reach its performance goals. This means that SWOT analysis is a means of searching for insights into ways of crafting and maintaining a profitable fit between a business entity and its environment (Ansoff, 1975, Porter, 1979).

Fleisher and Bensoussan (2003, p.96-7) point out some strengths and advantages of SWOT analysis. First, SWOT analysis has a wide applicability. It can be used for analysing a variety of units, including but not limited to individual managers or decision makers, teams, project, product/services, function areas of the organisations (i.e., marketing, operations, and sales), business units, corporations, and product markets. It works equally well for profit or non-profit organisations. Second, SWOT analysis does not require a great deal of financial or computational resources and can be done both quickly and with some degree of efficacy without the necessity of of exten-

sive information acquisition. Third, it can provide the impetus to analyse situation. It can also offer an enhanced way of thinking through the range of viable tactics or strategies for responding to an organisation's competitive environmental dynamics. Fourth, SWOT analysis can be an effective team-building method when performed jointly by functional specialists from marketing, operation, finance, and so on. Lastly, SWOT analysis can provide insight into why a particular organisation has been successful or unsuccessful in carrying out its strategy.

Despite its strengths and advantages, SWOT analysis has also some weaknesses and limitations (Fleisher & Bensoussan, 2003, Hill & Westbrook, 1997). First, the SWOT analysis is descriptive model and it does not offer the analyst explicit strategic recommendations. SWOT analysis cannot give the decision maker specific answers. It is only a way to organise information and allocate probabilities to potential events as the basis for developing business strategy and operational plans. Second, the inherent simplicity of SWOT disguises a great deal of complexity. The primary concerns for the analyst who must conduct a situation analysis are collecting and interpreting a lot of data about the most significant environmental forces, and then deciding what to do in response to them. Interpretation represents a form of judgment and will likely differ between individual managers. Third, detractors of this model criticise the limited ability of SWOT analysis to prescribe specific actions to be followed by an organisation. Since the individual complexities of business, the general recommendations need to be organised to a high level of abstraction. Lastly, other critics of SWOT analysis emphasise its reliance on qualitative rather than quantitative data, its focus on creating reactive rather than proactive strategies, and its simplification in distinguishing between strengths and weaknesses, and opportunities and threats.

<sup>2</sup> In 1971, Ken Andrews – the pioneer of SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis – was one of the first strategy theorists to formally articulate the concept of strategic fit between the firm's resources and capabilities with the external environment.

Even though there have been criticisms concerning the use of SWOT analysis in business research, it is still very useful since it has been enhanced through improvement of the original SWOT concept (Koch, 2000). The improvement includes provision of some practical guidelines and a sequence of steps in conducting the SWOT analysis (Johnson, Scholes, & Sexty, 1989).

It is argued that the quality of strategy formulation of the entire plan of an enterprise (e.g. LPD) depends on the quality of the SWOT analysis (Flavel & Williams, 1996, Pearce II & Robinson, 2003, Thompson & Strickland III, 2001). The first step in utilising a SWOT analysis in this study is to evaluate existing and possible future strategies involves listing and evaluating the strengths, weaknesses, opportunities, and threats of the LPD unit being studied by using SWOT internal checklist. Relevant SWOT factors are identified and summarised from an analysis of the internal LPD and its external socio-economic environment. An internal analysis of management and business functions will result in a list of statements about the LPD, which may be interpreted as either strengths or weaknesses. These strengths and weaknesses are made up of factors over which it has greater relative control by the enterprise (Flavel & Williams, 1996, Fleisher & Bensoussan, 2003).

Strengths are those factors that make an enterprise more competitive in its marketplace (Fleisher & Bensoussan, 2003, Thompson & Strickland III, 2001, Weihrich, 1982). Strengths can be in the form of skill or important expertise (for instance, expertise in providing consistently good customer service or unique advertising and promotional talents), valuable human assets (for instance, an experience and capable workforce or motivated and energetic employees), valuable organisational assets (for instance, a base of loyal customers or a strong balance sheet and credit rating), valuable intangible assets (for instance, image, company reputation, buyer goodwill, or a motivated and energised workforce), competitive capabilities (for instance, a high degree of organisational agility in responding to shifting market conditions and emerging opportunities), and an achievement or attribute that puts the company in a position of market advantage (for instance, low overall costs, market share leadership, a superior product, or strong name recognition).

A weakness is a limitation, fault, or defect within an enterprise that will keep it from achieving its objectives. It is what an enterprise does poorly or where it has inferior capabilities or resources as compared to the competition. Thompson and Strickland III (2001) point out that an enterprise's internal weaknesses can relate to "deficiencies in competitively important skills or expertise or intellectual capital of one kind or another; a lack of competitively important physical, organisational, or intangible assets; or missing or weak competitive capabilities in key areas." A weakness may influence an enterprise's competitiveness. The magnitude of the influence depends on how much the weakness matters in the marketplace and whether it can be overcome by the resources and strengths owned by the enterprise.

An external analysis of management and business functions will result in a list of statements of opportunities and threats by using external SWOT checklist. These enterprise's opportunities and threats are made up of factors over which the enterprise has lesser relative control (Flavel & Williams, 1996, Fleisher & Bensoussan, 2003). Opportunities include any favourable current or prospective situation in the enterprise's environment, such as trend, change, or overlooked need, that supports the demand for a product or service and permits the enterprise to enhance its competitive position. Thompson and Strickland III (2001) point out that market opportunity is a significant factor in shaping an enterprise's strategy. Managers cannot properly create strategy that suit to the enterprise's situation without first identifying each enterprise opportunity and appraising the growth and profit potential each one holds. Thompson and Strickland III (2001) also point out that the most relevant market opportunities to an enterprise are "the opportunities that offer important chances for profitable growth, those where an enterprise has the most potential for competitive advantage, and those that match up well with the enterprise's financial and organisational resource capabilities."

A threat includes any unfavourable situation, trend or impending change in an enterprise's environment that is currently or potentially damaging or threatening to its ability to compete. It may be a barrier, constraint, or anything that might inflict problems, dam-

ages, harm or injury to the enterprise. Thompson and Strickland III (2001, p.127) point out that “threats can stem from the emergence of cheaper or better technology, rivals’ introduction of new or improved products, new regulations that are more burdensome to an enterprise than to its competitors, vulnerability to a rise in interest rates, and the like.” The opportunities and threats not only influence the attractiveness of an enterprise’s situation but, more important, they point to the need for strategic action. Thompson and Strickland III (2001) also point out that creating strategy to an enterprise’s situation involve “pursuing market opportunities well suited to the enterprise’s resource capabilities and taking actions to defend against external threats to the enterprise’s business.” The opportunities and threats include, among others, overall demand, the degree of market saturation, intensity of competition, threat of substitute products, government policies, economic conditions, social, cultural, and ethical developments, technological developments, and the like.

The methodology used to gather and interpret this information in this study is through doing a focus group discussion and an interrelated, iterative, and reinforcing process of consultation with managers of the LPD, the Commissioner Board of the LPD, clients of the LPD, and other stakeholders of the LPD such as officers of Bank BPD Bali and government official who

involve in giving supervision and guidance to the LPD. The data and information collected comprising facts and impressions and opinions from field study will be condensed into a meaningful picture that includes the main important strengths, weaknesses, opportunities, and threats. In this analysis, there are some elements of importance that must be categorised and scored.

In categorising and scoring the some elements of importance, this study applies Flavel & Williams’ (1996) weighted scoring methodology. It is expected that this methodology is appropriate to this study for two reasons. First, this methodology is quantifiable and measurable as shown in Table 1, while other SWOT methods only use diagram and qualitative approach. Second, this methodology has been applied to small-scale enterprises (SMEs) – which is the case of the LPD - many times and found to be very effective in encouraging SMEs to move away from a simple recitation of strengths, weaknesses, opportunities, and threats to a marginally more detailed, analytical method (Flavel & Williams, 1996, p. 41). However, in this scoring methodology, of course, the subjectivity of the analyst sometimes emerges since in response to collecting and interpreting data about the most significant environmental forces, as noted earlier, interpretation represents a form of judgment and will likely differ among individual stakeholders.

**Table 1**  
**SWOT Scoring Interpretation**

<b>SWOT Score %</b>	<b>Interpretation (of S, W, O, or T)</b>
90-100	Extremely high
80-89	Very high or obvious
70-79	High or obvious
60-69	Significant element of one of the above
50-59	Partial
40-49	One or two areas only of one of the above
30-39	Very little
20-29	Hardly any
0-19	None

Each major category identified for the LPD is weighted in importance against the other strength categories out of total score of 1.0. The score and weight determination of each category is based on consultation and focus group discussion with stakeholders of the LPDs including the managers, the member of Commissioner Board, the clients, the officers of Bank BPD Bali, and the government official. This weighting process is repeated for each of weaknesses, opportunities, and threats. Each individual strength, weakness, opportunity, and threat is also given a percentage score (out of a maximum 100%) to indicate its estimated degree of intensity as shown in Table 1 (Flavel & Williams, 1996, p.46). An average intensity percentage score is computed for each major category within strengths, weaknesses, opportunities, and threats and then multiplied with the importance weighting attributed to the relevant category to produce a weighted intensity for that category. This then provides a basis for assessing the relative significance to the LPD of particular categories of strength, weakness, opportunity, and threat. It also allows for the deduction of total weakness scores from total strength scores, and total threats scores from total opportunities scores, thereby allowing a diagnosis of the extent of positive strategic potential inherent in the LPD. Finally, the implication of final score on strategies to be taken follows Flavel & William (1996, p.47) methodology as follows:

**For Plus Scores**

- 0-40      Some advantages, but further work required before committing resources
- 41-60     Considerable advantage. Appears to be well placed although further analysis is recommended
- 61-80     Excellent advantages with need to concentrate in only a few areas
- 81-120    Appears to be ready for immediate implementation

**For Minus Scores**

- 0-40      Some disadvantages, but further analysis required before proceeding
- 41-60     Considerable disadvantage. Considerable analysis required before proceeding.

- 61-80      Poor case but may be confined to a few areas. Attempt to correct these before proceeding.
- 81-120    Severe disadvantage in a large number of areas. Unlikely to be successful.

As stated in earlier, strategic planning refers to a process of discovery and awareness creation as environmental (market place) changes are identified and related to relevant enterprise strengths and weaknesses. It includes defining the enterprise's mission, specifying achievable objectives, and developing strategies. A strategic business plan refers to a written, long-range plan with the inclusion of mission statement, organisation objectives and strategies to enable accomplishment of objectives (Flavel & Williams, 1996, p.4, Thompson & Strickland III, 2001, p.17). The aim of creating a strategic business plan is to improve on how an enterprise is operating today and to identify the actions required to prepare for future markets and changing environment conditions. The formulation of some recommended strategies or creation of some elements of business plan in this study is expected to have some benefits for the future development of the LPD unit being studied.

**HISTORY AND INSTITUTIONAL ARRANGEMENT OF LPD MAS OF UBUD**

The first Village Credit Institutions of Bali (Lembaga Perkreditasi Desa or LPD) was established in 1984 and there were 926 LPDs have been established in 2000 (Bank BPD Bali, 2000). The objectives of establishing an LPD in each custom village (*desa adat*) are to support rural economic development through enhancing savings behaviour of rural people and providing credit for small-scale enterprise, to eliminate exploitative forms of credit relations, to create an equal opportunity for business activities at the village level, and to increase the degree of monetisation in rural areas (Government of Bali, 2002). These objectives reflect the development mission of the LPDs to provide financial service for rural people in Bali.

According to the Bali Provincial Regulation on LPD No.2/1988 and No.8/2002 on Village Credit Institution, the establishment requirements of LPD are that a

custom village possesses a written customary regulation (*awig-awig*) and has socio-economic potentials to develop (Government of Bali, 2002, article 5). This requirement indicates that the Regulations (formal institution) made by the provincial government of Bali have paid attention to and accommodated the informal institutions (including social custom, values, and norms within the customary law), which is the key factor for effectiveness of a formal regulation in delivering desired outcomes (World Bank, 2002, p.172). The elucidations of the regulation clearly states and recognises that the customary law is more obeyed by the members (*krama desa*) of custom village since the social custom, values, and norms have been existed for centuries.

The accommodation of the informal institutions in the formal institutions is also reflected in the elucidation of the Regulation No.2/1988. The elucidation points out that the regulation was legislated in order to maintain and improve the existence and independence of custom village (Government of Bali, 1988). Moreover, the elucidation also points out that the LPDs are community financial institutions that are owned, managed and used by the members of the custom village. This Regulation states that the operational arrangement of LPD has to be based on Balinese custom. This indicates that, even though the LPD is initiated from 'outside' (the Provincial Government), it is based on local needs and directed towards the development of a decentralized and customer-owned financial system. The requirement for a custom village to have a written custom village regulation, as mentioned above, implies that the LPD seeks to draw upon the rules, behavioural norms and code of conduct for community of a custom village (Government of Bali, 2002, Article 5, Oka, 1999).

This in turn strengthens the competitive advantage of the LPD among other competitors such as Koperasi Unit Desa (Village Unit Cooperative) and BRI Village Unit.

Finally, the recognition and adaptation of informal institutions in the Regulation No.8/2002 is also evident in the requirement that the daily operational activities of LPDs have to be accountable to the custom village through its leader (*Bendesa Adat*), and that the core management team has to be recruited and selected from the community members of the village and elected during village meetings (*paruman desa*).

In addition to possession of a written custom village regulation requirement, the establishment also depends on the annual provincial government budget for providing starting capital and preparing staff management (Bank BPD Bali, 1986). In the establishment of a new LPD, the Provincial Government of Bali provides a starting capital of Rp10 million<sup>3</sup> and establishes special supervision and guidance teams at all government levels, which cooperate with Bank BPD Bali. Bank BPD Bali is a provincial government-owned bank which is appointed, through the Governor Decree No. 344 of 1993, to give technical guidance to the LPDs. The function of each organisation involved in guiding and supervising the LPDs, included Bank BPD Bali, is discussed in the next section.

LPD Mas of Gianyar is one of LPDs in Bali. It was established in 1985 to support rural economic development of Mas custom village. It is located in Ubud, a handicraft industry based sub-district, in Gianyar district of Bali province. It was established based on the Bali Governor's Decree No.495/1985. In 2001, LPD Mas has total assets of Rp7055 million, total equity of Rp373.4 million, bank deposits in Bank BPD Bali of

<sup>3</sup> Prior to Regulation No. 8, starting capital provided by the Bali Provincial Government was Rp2 million and it had to be repaid within 5 to 10 years, based on the Bali Governor's Decree No.972/1984. This is called as subsidies without dependence (Chaves & Gonzales-Vega, 1996, p.73). The subsidy was one-time loans and not followed by the expectation of additional injections of resources. This kind of subsidy is still valid in the new regulation. No operating subsidies were granted. Chaves & Gonzales-Vega argue that the advantage of this approach is that the organisation has to be able to plan on a solid basis, rather than depend on annual budgets outside resources and become vulnerable to the swings associated with such funding, linked either to the mood of politicians or the availability of fiscal resources in a particular year.

Rp1560 million, and profit of Rp427.9 million and serves 1607 borrowers, 5377 savers, and 513 depositors (see Appendix 1). It has a motto “Bersama Anda Membangun Desa,” which means (more or less) “We develop our village together.”

### Organisation and planning

The organisation of LPD Mas is uncomplicated. Based on the Regulation No.8/2002, it is managed by a committee (core management) that consists of a chairman, cashier and administrative officer. In general, the job description of the core management applied to any LPD are described as follows (Djaya, 1999, p.19-20). The tasks of the chairman include coordinating daily operational activities of LPD, conducting contractual agreement with clients, being accountable to the custom village through its leader (*Bendesa Adat*), crafting action and budget plans, and formulating the LPD policies including saving, credit, and the direction of development policies of LPD. The administrative officer has a set of tasks which include conducting administration tasks, both general administration and book-keeping, being accountable to the LPD chairman, conducting Balance Statement and Income Statement, and managing archives. The tasks of cashier are to record the flow of funds such as savings, time deposits, loans, and being accountable to the LPD chairman.

Because of the simple organisation, according to the Chairman of LPD Mas, the span of control is not wide; the responsibility of each unit in the LPD is clear, well-distributed, and easy to monitor. This enables the chairman to manage, coordinate, and control each unit of activities including savings, time deposit, and credit unit in the LPD. The LPD staffs assist the chairman in their tasks and are involved in creating the activity & budget plan and in credit decisions. The creation of activities and budget plan is initially from a plan of each unit of activities and then processed and unified by the core management to be an activity and budget plan of the LPD. Therefore, all staffs know the plan and its objectives. Then, the plan has to be approved by *Bendesa Adat* (The Chief of Commissioner Board of LPD). An addition, the LPD Mas management also make an annual financial report which is submitted to *Bendesa Adat*, *Kepala Desa* (the administrative vil-

lage leader), *Camat* (the sub-district leader), and PLPDK (district supervision organisation).

In managing LPD, the management team of the LPD Mas also monitors the macroeconomic condition which often influences the business of its clients, especially artisans/craftsmen, handicraft entrepreneurs, and farmers. Internal evaluation of the LPD is conducted by the Commissioner Board. In addition, the LPD management also conduct a quarterly formal meeting for internal evaluation that involve all staff. Collector staffs (credit or savings) are given a daily briefing on their duties by the Chairman of LPD Mas before they start work, for examples, how to collect instalments and savings from the clients who will be visited on that day.

The information gained from the interview with the Chairman of LPD Mas thus suggests that the planning and organising process in this LPD functions well, and that no problem has confronted the LPD management which it has been unable to resolve by itself. This conforms to what the chairman argues that the organisation structure of LPD is still capable enough to implement the LPD policy and strategy to achieve its objectives. The internal management capability of the LPD is supported by the supervision and guidance offered by local government at all levels and by Bank BPD Bali. The next section deals with the recruitment procedure of staff of LPD. The discussion on this matter is important in order to know who and how the staff to be recruited.

### Recruitment procedure

The core management team of LPD Mas is recruited from the local environment of custom village (*desa adat*). They are selected from the community members (*krama desa*) of the village and elected during village meetings (*paruman desa*) for a four-year period, but they could be re-elected if they performed well in managing the LPD (Government of Bali, 2002, Article 11). The managing committee is usually assisted by two or three staff responsible for the collection of savings and loans (loan and saving collector).

One of the important tasks of the core committee, according to article 11(4) of the Regulation No.8/2002, is an authority to appoint new staff or to dis-



charge staff in operational management of LPD. The chairman of LPD Mas points out that the recruitment of the additional staff is based on the business size of the LPD. This recruitment has to be approved by the Chief of LPD Commissioner Board who is the custom village leader (*Bendesa Adat*). The chairman also point out that the selection of the new staff by the Board of Commissioner is also based on the aptitude and an attitude test (character-based) of the applicants.

An additional recruitment criterion is that each *banjar* (hamlet) in the custom village must be represented among staff members. This criterion suggests that the LPD wants to maintain close relations with all *banjar* (hamlet) of the *desa adat* (custom village) and possibly to have a staff member who personally knows the client and thus can evaluate the client's creditworthiness. The selection process of this staff is conducted by the *Bendesa Adat*. After passing this selection process, the applicant has to attend an aptitude test conducted by PLPDK. This test includes motivation, willingness to serve the LPD, and general knowledge. The general requirement of the applicant is that hold at least a high school certificate level.

As there is no initial training period, the successful applicant then begins to train on the job. The position and area expertise of the staff are not fixed, and once a year, a work rotation will take place which aims at mastering every unit of activities. However, after several months on the job the staffs receive some additional training, funded and conducted by the LPD Mas in cooperation with Bank BPD Bali.<sup>4</sup>

In sum, this recruitment procedure reflects the role of informal institutions on the management (practical arrangement) of LPD Mas. It is also shows the embeddedness of the LPD Mas with its socio-cultural environment. In other words, the recruitment procedure does reflect that the LPD Mas are rooted to their socio-cultural environment.

### **Principle of operational arrangement**

In regard to the practical operational arrangement of the LPD Mas, the elucidation of the Regulation No.8/

2002 states that any LPD has to apply the prudential principle of financial institutions for achieving healthy financial institutions. However, this regulation only states the principle in general terms. The principle includes the regulation on capital adequacy, legal lending limit, reserves for loan losses, liquidity management, and rating system of LPD. Another government regulation is the BPR CAMEL rating criteria imposed by Bank Indonesia (the Central Bank) based on Circular Letter No.30/UPPB, 30 April 1997 (Bank BPD Bali, 2000, p.15). This regulation basically the same as the prudential principle imposed by the Provincial Regulation, but it is more elaborated. This regulation sets the criteria of the capital adequacy ratio (CAR), productive asset quality, management aspect, earnings, and liquidity. Based on the CAMEL criteria, Bank BPD Bali (2000) classifies LPDs into four categories: sound, fairly sound, less sound, and unsound. Based data from Bank BPD Bali (2000), 787 of 926 LPDs, or 85 percent, were classified as sound and fairly-sound (Bank BPD Bali, 2000p.15).

### **Delivery mechanism of credit and saving**

The above description of the LPD's organisational structure and recruitment procedure reveals a strong relationship between LPD and its community. This strength lies in the fact that the LPD is an institutional element of custom village and is not related to the administrative village (*desa dinas*) (Oka, 1999, Warren, 1993). Therefore, as local and user-owned financial institutions, the LPD Mas has an intimate knowledge of their clients and rely on mechanisms of social control in screening and enforcement problems that are based in the shared social and religious norms of the custom village (Oka, 1999). As a result, client information is easily available which could eliminate the asymmetric information which as a key problem that affects the likelihood of default of microfinance institution. This is one of the comparative advantages of the LPD compared to other microfinance institutions in Indonesia. Warren (1993) argues that the character of the custom village as a democratic system regulated by customary

<sup>4</sup> The chairman did not mention exactly how many months.

law provides strong socio-cultural bonds and effective control for LPD operations.

The strong influence of the custom village (including the shared social and religious norms) is reflected in its operational arrangement that is clearly shown in the credit mechanism or loan processing. The first step in loan processing is that a loan applicant has to fill a simple loan application form out which establishes the profile of the applicant (Bank BPD Bali, 1999a). Then the applicant goes to the Chairman of LPD Commissioner Board (*Bendesa Adat*) to ask for a reference. As pointed out by most interviewees, the decision of the *Bendesa Adat* is mainly based on the character of the applicant (character-based lending approach). When the character (reputation) of the applicant meets the requirements, the *Bendesa Adat* gives the applicant a reference and then the applicant goes to the LPD to ask for the loan. At the LPD level, the LPD management evaluates the capacity and prospect of business of the applicant (Bank BPD Bali, 1999a, p.7). The chairman of LPD Mas points out that the time between submitting an application and disbursement of the loan ranges between one day and one week for first time borrowers; however, only one day is required for a repeat borrower.

This advantageous and cheap technique (Chaves & Gonzales-Vega, 1996), accompanied by local monitoring, has been comparatively efficient in avoiding costly mistakes in assessing the probability of loan repayment and, in turn, also lowers the transaction costs (Chaves & Gonzales-Vega, 1996, Onchan, 1992, Timberg & Aiyar, 1984, Yaron, 1992). According to Bank BPD Bali (2000), the loans portfolio of LPD is classified into four categories: pass, doubtful, sub-standard, and loss. Based on this criteria, in 2000 the repayment rate <sup>5</sup> of the whole LPDs in Bali based on the balance statement consolidated was 92.34 percent (Bank BPD Bali, 2000).

The flexible procedure in delivery mechanism is also reflected in the types of loans and the loans re-

payment patterns. The chairman of LPD Mas mention that LPD Mas offer weekly, monthly and seasonal credit schemes with maturities of between 3 and 12 months, but most of credit is must be repaid within a month. Regarding the loans repayment patterns, they point out that the patterns could be adjusted to a wide variety of activities financed and their typical cash flow patterns, for instance, small-scale industry entrepreneurs, small traders, and farmers. Even though the standard loans predominated - LPD generally collects repayments weekly and monthly - the LPD Mas has permitted balloon repayments and even daily repayment schedules when justified.

Concerning the interest rate, in 2002 the lending interest rates for loans ranges from 27 percent to 33 percent which is higher than the average commercial bank interest rate of 22 per cent per annum. But LPD Mas offer other advantages to their clients, as mentioned above, such as simpler and easier procedure, faster disbursement, and sometimes collateral free (for small amount of loans of less than Rp500 thousand). This relatively high lending interest rate has allowed the LPD Mas to cover the operational costs and loan losses. Moreover, the three chairmen argue that through its relatively small loan amounts, flexible repayment patterns, relatively quick loan disbursement, and delivery mechanisms tailored to client needs, the LPD services have succeeded in alleviating the problem posed by usurers (money lenders) in the rural area.

Another important aspect of credit mechanism is the principle of loan delivery. The principle of the loan delivery in LPD is that a loan only be given to clients on an individual basis who are the members of a custom village (*desa adat*) where the LPD located (Government of Bali, 2002, Article 7(1.b)). As noted earlier, according to the regulation, an LPD located in a certain custom village is not allowed to give credit to the people who live in other custom villages. However, in practice some large LPDs in urban and semi urban areas also serve non-community members to which their

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<sup>5</sup> Repayment rate is the ratio between the first three categories of outstanding loans divided by total outstanding loans (all four categories).

custom village regulations (*awig-awig*) do not apply (Bank Indonesia & GTZ, 2000).<sup>6</sup> This practice could become a severe problem faced by the LPD in enforcing contractual agreement – for instance, in enforcing the repayment of the clients - between the LPD and its clients. The chairman of LPD Mas also states that the LPD Mas also gives credit to the non-community members of its custom village since the LPD experiences an excess liquidity. But the arrangement was conducted through the coordination with and the involvement of the *banjar* (*hamlet*) and not on an individual basis.

Concerning the principle of loan delivery, a provincial government officer interviewed argues that this is a challenge that many LPDs will face in the future, when their business size and credit transactions grow and socio-cultural aspect of clients more diverse. In this situation, a client – who is not a community member or non-native Balinese – could violate the custom village regulation (*awig-awig*) because he/she is not tied by the social norms and this, in turn, would result in eroding the effectiveness of any sanctions (such as exclusion from the community) that could be imposed by the LPD. This conforms to the World Bank (2002) argument that the informal institutions could be less effective as the number of trading partners of an institution grows and they become more socio-culturally diverse (World Bank, 2002, p.172). Dealing with this potential problem, the cooperation among LPDs on one side and custom villages on other side (Windusara, 2002), and the existence of formal institutions supplanting community norms as the World Bank suggests (World Bank, 2002, p.177) are dispensable to prevent or overcome such a problem in the future, since the changes in the number of credit transactions and a more diverse socio-cultural aspect are inevitable as results from socio-economic development.

As mentioned earlier, one of the objectives of the LPD establishment in each custom village (*desa adat*) is to support rural economic development through enhancing savings behaviour of rural people (Government of Bali, 2002, Article 7(1)). Other than enhancing savings behaviour of rural people, for the LPDs

this savings product is also expected to ensure financial discipline and to build a positive relationship between the LPDs and its clients which, in turn, will maintain good repayment rates of its clients. In addition, promoting savings facilities is essential for rural development since savings facilities encourage the rural population to store value in efficient way and, in turn, increase domestic savings (Yaron, 1994, p.61). Further, Yaron (1994) also points out that a microfinance institution success in mobilising savings is one of the key factors for its self-sustainability.

As well as the lending rates, savings interest rates also vary from one LPD to others since each LPD is allowed to set up the rate independently. However, in general the interest rate is not much different among LPDs in the same sub-district since they use the same basis in interest rate determination. The chairman of LPD Mas mentions that the basis for interest rate determination is the interest rate of competitors, that is, the BPR (People's Credit Bank) and the BRI Unit Desa located in the same sub-district. In 2002, the LPDs offer around 0.8 percent per month for savings and 1.3 percent per month for time deposits. The interest rate of time deposit was slightly higher than those offered by the BPR of 1.1-1.2 percent per month. The chairman argues that the slightly higher interest rate is aimed to make LPD Mas more competitive than the BPR (People's Credit Bank).

Most clients' savings in LPD Mas is collected through mobile services. A LPD Mas staff member visits the clients each day of the week, often on market day, collecting savings deposits and loan repayments. In some cases, in the literature this practice has reduced transactions cost for both the clients and the microfinance institutions (Yaron, 1994, p.62). Moreover, this procedure could also be expected to increase the loan repayment rate through the increase of financial disciplines of the clients.

The loan delivery process described above clearly shows that the LPD Mas uses existing social structures in screening potential borrowers to ensure that the potential borrowers are selected appropriately

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<sup>6</sup> The custom village regulations, in general, do not differ much from village to village, but a custom village regulation (*awig-awig*) in one village does not apply to other villages.

and repayments are made on time. The use of the legitimate informal leader (*Bendesa Adat*)<sup>7</sup> in the custom village to help screen loan applicants has secured prompt loan collection. The LPD Mas relies on the reputation, authority, and official and social status of the village leader to overcome one of the principal deficiencies of general banking: inadequate information on the creditworthiness of potential borrowers. This type of informal information is based on trust (World Bank, 2002, p.173). The chairman of LPD Mas states that when the borrower shows a poor performance in his/her credit repayment, the penalty is immediate: additional borrowing is prohibited, and the borrower's access to credit is eliminated until he/she completely repay his/her loans. In contrast, they state that the borrowers who make timely repayment gradually are allowed to increase the amount of credit they are eligible to receive.

In relation to the custom village regulation (*awig-awig*), social sanctions could be applied to the clients who violate the rules, for instance, by not repaying their credits properly (Oka, 1999). The heaviest social sanction is the exclusion of the delinquent borrower from the community, which means that he/she loses his/her share of community ownership and the plot of land on which his family compound is built is withdrawn. He/she could also lose the right for a funeral in the village cemetery and subsequent cremation. He/she could become an outsider without security of the community and must look for a new life far away from his native village. However, Oka (1999, p.19) suggests that the sanctions should be economic such as seizing his/her physical assets, since the exclusion sanction is regarded as a severe sanction with many negative implications for the offender. According to the interviewees mentioned earlier and Oka (1999, p.17), the custom village regulation (*awig-awig*) has been effective in overcoming the problem of delinquent borrowers or low repayment rate, which is the main cause of microfinance institutions failures (Christen, Rhyne, & Vogel, 1995, Woolcock, 1999, Yaron, 1994).

The custom village regulation (*awig-awig*) also applies to the staff of LPD (Oka, 1999, p.18) who violates the regulation or conducting mismanagement in daily operational the LPD such as collusion, corruption, or manipulation. The social sanctions could also be imposed on them as well as delinquent borrowers. Moreover, based on formal legal regulation, article 24 of the Provincial Regulation No.8/2002 states that LPD staffs who violate the regulation causing the LPD to suffer a financial loss has to compensate the loss. Article 26 that elaborates the article 24 of the regulation emphasises that the convicted staff could be punished maximum 6 month in jail or a maximum fine of Rp5 million. In sum, this description indicates that informal institutions (such as social norms and sanctions) and formal institutions (a formal legal regulation) are used simultaneously in the practical arrangement of LPDs.

#### Remuneration system

The chairman of LPD Mas points out that the remuneration system of LPD Mas is generally intended to stimulate better performance of its staff, especially in collecting loans and promoting and servicing savings. However, the remuneration system of each LPD differs from one to another since the salary, bonus, and other incentives is based on the cost of living in the village where the LPD located and financial capability (such as profit) of each LPD. The chairman of LPD Mas points out that the basic salary is based on the daily wage of a sculptor where the LPD Mas located. Among the core management of the LPD, the chairman earns the highest salary, followed by the cashier and administrative officer. This principle of basic salary determination that based on the cost of living in the village where the LPD located also reflects a strong relationship between the LPD and its socio-economic environment. This strong relationship implies the embeddedness of LPD Mas with its socio-economic environment and, in turn, has strengthened its existence and sustainability of LPD Mas as a local firm or organisation. As argued

<sup>7</sup> *Bendesa Adat* is elected in village meeting (*paruman desa*) by the members of custom village (*krama desa*) in a democratic way (Oka, 1999).

by some scholars (Baum & Oliver, 1991, Carrol, 1993, DiMaggio & Powell, 1983, Esman & Uphoff, 1984, Meyer & Rowan, 1977, Oliver, 1997, Snow, 1999, Uphoff, 1986) that the sustainability of a local firm or organisation depends on its ability to fit with and adopt its socio-economic environment.

Although the basic salary determination differs from one LPD to others, there has been a general rule concerning the determination. The chairman states that according to the Gianyar Mayor's Decree 2002, the total amount of salary received by all of management staff is maximum 30 percent of net profit in each month. In addition to the basic salary, the LPD Mas gives some incentives, including insurance for pension and some bonuses. A staff that will be pensioned is given between 4-16 months' separation pay depend on the length of working experience of the staff. The bonus is given for certain purposes. One type of bonus is an end-year bonus or production reward which is 10 percent of net profit of each LPD, as mentioned in the previous section. This bonus is aimed to enhance and stimulate the working spirit and productivity of the staff. The amount of bonus received by each staff, however, varies since the bonus distribution not only depends on the type of job and but also the length of working experience of the staff. Another type of bonus is collection fee (incentive payment) which is given to the loan collector monthly. This incentive is also aimed to increase the working spirit of the loan collector. The chairman mentions that the incentive payment amount is 0.05 percent of total loan instalment per month.

The remuneration system discussed above reveals that the LPD Mas has applied a remuneration system which is called a management compensation scheme based on performance in the literature (Chaves & Gonzales-Vega, 1996, p.71). This system consists of a total remuneration that results from combination of a fixed salary plus bonus or incentive payment that is a function of some observable and measurable variable, such as profits or loan instalment recovered. The advantage of this scheme has been that the remuneration system of LPD Mas is fair and accountable. It is fair

since the remuneration is based on performance and responsibility of the staff (merit system) and it is accountable since it is based on certain observable and measurable variable. Further, the three chairmen also state that they are satisfied with the salary, bonus, and other incentives they received and they think they would not be able to get an equal job and payment. Referring to Chaves and Gonzales-Vega (1995), the statement implies that an efficiency wages<sup>8</sup> has been being paid. The satisfaction of the staffs with the remuneration system of LPD is also indicated by the working motivation of the staffs. According to the Chairmen interviewed, the high working motivation of their staff is reflected in the very low absence and turn over rates they have observed.

The stable and growing macroeconomic condition accompanied by liberalisation of financial markets at the national level, political stability in Bali, support from government at all administrative level, a high degree of social cohesion of Balinese people, and the importance of traditional social structures have fostered the growth of LPD Mas. In sum, there is no doubt that the stable and growing macroeconomic and socio-cultural environments have been important factors of the growth and development of the LPD Mas in Bali.

#### **SWOT ANALYSIS OF LPD MAS OF UBUD, GIANYAR, BALI**

The internal strengths and weaknesses and the external opportunities and threats of the LPD Mas were mainly identified from consultations and focus group discussions with the LPD Mas owners, managers, members of Commissioner Board, and other stakeholders involved in the LPD, such as local government (provincial and district level) of Bali and Bank BPD Bali. Following the methodology of categorising, scoring, and weighting scores of Flavel and William (1996), the key elements are identified in the SWOT analysis in Table 2. A summary of key findings from analysis follows.

<sup>8</sup> Efficiency wages refers to the salary paid to an employee while equivalent workers would be willing to perform exactly the same tasks for a lower wage (Chaves & Gonzales-Vega, 1996, p.72)

### Summary of main strengths

There have been some strengths of LPD Mas based on its internal management aspect. Firstly, the strength of its planning and organising aspect. This strength has been one of the factors affecting its sustainability since it was established in 1985. The strengths are reflected by the establishment and operating of LPD Mas that has been supported by some institutions (such as local government at all levels, Bank BPD Bali, and custom village) through their involvement in supervision and guidance, its simple organisational structure that caused a manageable span of control, a clear and clarified job description, and well-distributed responsibilities of each unit. All of these factors will be significant advantages in the development and operation of the LPD Mas in the future.

Secondly, its recruitment procedure, remuneration system, motivation of staff, and productivity of staff indicate the strengths of LPD Mas in terms of personnel management. The core management committee of LPD Mas are selected from the community members (*krama desa*) of the Mas custom village and elected during village meetings (*paruman desa*), which is mainly based on the character of the committee candidates. LPD Mas has applied a remuneration system which is called a management compensation scheme based on performance. It consists of a combination of a fixed salary and a bonus or incentive payment that is a function of some observable and measurable variables, including profits or loan instalment recovered. The fixed or basic salary is based on cost of living where the LPD located. This remuneration system has the advantage of being fair and accountable since it is based on performance and responsibility of the staff (merit system) and certain observable and measurable variables. The satisfaction of the staffs with the remuneration system of LPD Mas is indicated by the high level of work motivation of the staffs reflected by a zero absence rate of the staffs and a low turn over of the staffs.

Thirdly, LPD Mas has also some strength in its financial management and its financial performance.

LPD Mas has applied a standardised financial reporting (monthly and annually) and budget preparation systems (annually) set up by Bank BPD Bali. In addition, in terms of financial indicators - such as the growth of assets and equity, efficiency, and profitability - LPD Mas has been performing well (see Appendix 1).

Lastly, LPD Mas also has some strengths in regard to its marketing management. LPD Mas offers some financial services which are mainly loans, savings, and deposits. In its delivery mechanism, the LPD applies a simple and flexible credit and savings mechanism to suit its specific clientele in rural areas. LPD Mas has applied character-based lending approach which is considered as a very advantageous and cheap technique in the literature (Chaves & Gonzales-Vega, 1996). Although its lending rate has been relatively higher than the average commercial bank interest rate per cent per annum, LPD Mas offers additional services to their clients such as a simpler and easier procedure of loan mechanism, faster disbursement, and collateral free for small loans of less than Rp500 thousand.

Since one of the key factors of sustainability of microfinance institution is its ability to mobilise savings, LPD Mas also has been attempting to enhance its clients' savings. Most its clients' savings is collected through mobile services. A LPD Mas staff member visits the clients weekly, usually on market day, collecting savings deposits and loan repayments. In literature the advantage of this practice is that it can reduce transactions cost for both the clients and the microfinance institution it-self. Moreover, this procedure could also be expected to increase the loan repayment rate through the increase of financial disciplines of the clients.

LPD Mas has also conducted promotion strategies to penetrate the local market and to foster loyalty in its clients.<sup>9</sup> The strategies include presenting gifts and scholarships to primary and secondary school students who have outstanding achievement, donating funds for *pura* (temple) construction projects, donating for *banjar* (hamlet) for religious ceremonies and maintaining roads, and distributing stickers to its cli-

<sup>9</sup> The data on the growth of its clients, loans, and savings is presented in Appendix 1.

ents. The chairman states that to date LPD Mas has given scholarships to 16 secondary school students.

### **Summary of main weaknesses**

The management of LPD Mas has also some weaknesses. Even though it has been established since 1985, LPD Mas has no formal research & development program and no promotions & staff development system. In a changing socio-economic environment, a research & development program is a necessary in order to keep the competitive advantage of an organisation. A promotions & staff development system might also be needed to stimulate the motivation of the staff.

In addition, the LPD Mas suffers from inadequate training program and equipment. At present LPD Mas has no regular program on training for its staff. Training - both in general management and in specific areas of management such as risk and banking management - is rarely conducted. The office equipment of LPD Mas, which only has 3 computer units, is relatively limited for eleven staff.

### **Summary of opportunities**

LPD Mas has a strong opportunity to be more developed in future based on its access to market, its pricing policy, quality of services, clients' loyalty, inferior quality of its competitor, and employment source. LPD Mas has a very good access to its market since it serves local community (custom village). With the good quality of its services, as mentioned in the strengths sum-

mary above, accompanied by its competitive pricing policy especially savings interest rate, LPD Mas will be able to create its clients' loyalty and compete with its competitors. Moreover, LPD Mas also has an opportunity to diversify its business activities which, in turn, would broaden employment opportunity for the community members of custom village.

### **Summary of threats**

The main threat of LPD Mas would be the social attitude change of its society, since the establishment, operation, and effectiveness of this institution is mainly based on social custom of the Balinese population. When the social custom changes because of expanded market transactions and more diversified society, the changes could have a negative influence on LPD Mas, especially the compliance of its clients. Other potential threats would be an unstable and stagnant economic condition, competitors, and changing regulations. LPD Mas needs a stable and growing economic condition to maintain its sustainability as a microfinance institution. The competition is low since the competitors are few. However, changing clients' tastes and needs may also be a factor which will need attention, perhaps by diversifying financial services. Changing government regulations could be also a threat for LPD Mas in the future, particularly when the changes cause macroeconomic instability and uncertainty. However, so far most regulations concerning microfinance institutions have suited to LPD Mas.

**Table 2**  
**SWOT Analysis Table**  
**LPD Mas of Ubud, Gianyar, Bali**

		Score	Average percent	Weight	Sub-Total
<b>1</b>	<b>STRENGTHS</b>				
1.1	Organisation arrangements		80.8	0.25	20.2
	• Planning and organising	80			
	• Relationship between the LPD management, Board of Commissioner, Supervisory Board, and other stakeholders	90			
	• Size of operation	80			
	• Location of operation	90			
	• Access to general staff	85			
	• Access to specialised staff	60			
1.2	Personnel aspect		83.7	0.20	16.7
	• Recruitment procedure	85			
	• Remuneration system	80			
	• Motivation of staff	85			
	• Productivity of staff	85			
1.3	Financial aspect		84	0.25	21
	• Financial reporting	75			
	• Budget preparation	75			
	• Operational cost	90			
	• Return on Assets	90			
	• Operational self-sufficiency	90			
1.4	Marketing aspect		83.3	0.20	16.6
	• Marketing strategies	80			
	• Financial services designs	85			
	• Delivery mechanism	80			
	• Pricing policy	85			
	• Promotion activities	80			
	• Sales trends	90			
1.5	Infrastructure/equipment		71.2	0.10	7.1
	• Vehicles	75			
	• Computer/printer	65			
	• Typing machine	75			
	• Office equipments	70			
	Sub-total				81.8



<b>2</b>	<b>WEAKNESSES</b>				
2.1	Organisational arrangements		55	0.40	22
	• Lack of a mission statement	55			
	• Lack of research and development program	50			
	• Lack of promotion & staff development system	60			
2.2	Skills of staff		55	0.40	22
	• Inadequate training in general management	50			
	• Inadequate training in specific area such as financial management and banking management	60			
2.3	Equipment		57.5	0.20	11.5
	• Quality of computers equipment	55			
	• Quantity of computers equipment	60			
	Sub-total				55.5
<b>3</b>	<b>OPPORTUNITIES</b>				
3.1	Access to markets		85	0.30	25.5
	• Serve local community	85			
	• Competitive pricing policies	85			
	• Opportunities to diversify business unit	85			
3.2	Marketing		81.6	0.40	32.6
	• Quality of services	80			
	• Inferior quality of competitors services	75			
	• Clients loyalty	90			
3.3	Employment		80	0.30	24
	• Employment opportunities for members of custom village	80			
	Sub-total				82.1
<b>4</b>	<b>THREATS</b>				
4.1	Competition		40	0.20	8
	• Number of competitors	40			
	• Other competitors improve quality of their services	40			

4.2	REGULATIONS		40	0.20	8
	<ul style="list-style-type: none"> <li>Complying with the health requirements for microfinance institution</li> </ul>	40			
	<ul style="list-style-type: none"> <li>Changing regulations</li> </ul>	40			
4.3	Economic factors		50	0.30	10
	<ul style="list-style-type: none"> <li>Lack of research and planning to identify external opportunities &amp; threats</li> </ul>	50			
	<ul style="list-style-type: none"> <li>Unstable and stagnant macroeconomic condition</li> </ul>	50			
4.4	Socio-cultural factor		55	0.30	16.5
	<ul style="list-style-type: none"> <li>Changing clients attitude</li> </ul>	55			
	<ul style="list-style-type: none"> <li>Changing social attitude of rural people because of more diverse society in the future</li> </ul>	55			
	Sub-total				40
	<b>FINAL SWOT SCORE</b>				<b>65.7</b>

Differential Scores    Strengths - Weaknesses     $81.6 - 55.5 = 26.1$   
    Opportunities – Threats     $82.1 - 42.5 = 39.6$

**CONCLUSION AND RECOMMENDATION**

Flavel and Williams (1996) indicate that a final score of 61-80, suggests that while the enterprise may have excellent competitive advantage, it may be concentrated in one or two areas. This is the case with LPD Mas which has an overall score of 65.7, indicating that it should be looking to consolidate its position and/or for new product/markets. The strengths of LPD Mas are in significant areas such as its relationship with its stakeholders, location of operation, operational cost, return on assets, operational self-sufficiency, and sales trend. This LPD is also capable in minimising its weaknesses. The LPD Mas has considerable opportunities to diversify its business unit and to keep its existing clients. There is no major threat faced by this LPD. Based on the SWOT analysis above and the strategic management approach in formulating a mission statement, objectives, and strategies discussed earlier, I recommend a Mission Statement, along with Objectives and Strategies for LPD Mas of Ubud in the district of Gianyar in Bali Province as follows:

**Recommended Mission Statement for LPD Mas of Ubud**

As discussed earlier, a mission statement reveals the long-term vision of an enterprise in terms of *what it wants to be* and *who it wants to serve* and it should describe the enterprise’s purpose, customers, products or services, market, and technological areas of emphasis in a way that reflects the values and priorities of the strategic decision makers (Flavel & Williams, 1996, p. 51, Pearce II & Robinson, 2003, p. 13). In short, a mission statement should consider the client groups to be served, the client needs to be met, and how the enterprise will deliver the service benefits (Flavel & Williams, 1996, p. 55). Based on that consideration, I recommend the mission statement of the LPD Mas of Ubud as follows:

“To provide financial services to the community of Mas custom village through a sustainable and locally owned microfinance institution employing highly motivated staff from the community to enhance the economic development of Mas custom village.”

### Recommended Objectives for LPD Mas of Ubud

As discussed earlier, objectives can be defined as specific results that an organisation seeks to achieve in pursuing its basic mission (David, 2001, p.11). There are seven criteria should be used in preparing the objectives: acceptable, flexible, measurable over time, motivating, suitable, understandable, and achievable (Pearce II & Robinson, 2003, 157-158). Acceptable means that managers are most likely to pursue objectives that are consistent with their preferences. Flexible means that objectives should be adaptable to unforeseen or extraordinary changes in the firm's competitive or environmental forecasts. Measurable means that objectives must clearly and concretely state what will be achieved and when it will be achieved. Motivating means that people are most productive when objectives are set at a motivating level - one high enough to challenge but not so high as to frustrate or so low as to be easily attained. Suitable means that objectives must be suited to the broad aims of the firm, which are expressed in its mission statement. Lastly, understandable means that management at all levels must understand what is to be achieved. Using the Balanced Scorecard approach, an enterprise performance can be evaluated from four perspectives: financial performance, customer knowledge, internal business process, and learning and growth (Kaplan & Norton, 1996). Based on the seven criteria of the objectives and the four perspectives that have to be considered in evaluating an enterprise performance, I recommend the key objectives of the LPD Mas of Ubud as follows:

The key objectives of LPD Mas are:

1. Provide and develop financial services, with emphasis on maintaining existing clients and attracting potential clients;
2. Improve the well-being of Mas custom village by providing employment and credit & savings op-

portunities through the growth of business size of the LPD Mas;

3. Enable LPD Mas to preserve its sustainability by maintaining high efficiency and profitability rates;
4. Improve the internal management system in operating the LPD Mas;
5. Improve the management expertise by providing training opportunities for the staff.

### Recommended Strategies for LPD Mas of Ubud

As discussed earlier, strategies are the means by which long objectives will be achieved. The enterprise strategies concern *how*: "how to grow the business, how to compete rivals, how to respond to changing market conditions, how to manage each functional piece of the business and develop needed organisational capabilities, how to achieve strategic and financial objectives." Based on the SWOT analysis, vision, mission, and objectives that have been done and formulated, the strategies in enhancing the development of LPD Mas in the future are as follows:

1. Develop new financial services based on market segments;
2. Develop a marketing strategy (including promotion and delivery mechanism) to create and maintain new and existing clients loyalty;
3. Undertake the necessary economic feasibility of diversifying into other business activities;
4. Compile an audit of skills available from the local community that may utilised by the LPD Mas for developing existing and new business activities;
5. Develop measures to monitor progress against performance targets and objectives;
6. Develop a research & development program to monitor the changing economic environment;
7. Develop a promotions & staff development system to maintain staff motivation;
8. Develop and implement the necessary training program.

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**Table 1**  
**APPENDICES**  
**General Indicators of LPD Mas**

Indicators	1986	1996	2001
1. Total Assets (million Rp)	6.4	381.5	7055
2. Total Equity (million Rp)	2	28.6	373.4
3. Loan to Deposit Ratio (LDR)	1.8	1.1	0.87
4. Bank deposits (million Rp)	-	34.8	1580
5. Profits (million Rp)	1	14	417.9

Source: LPD Mas, Financial Reports, 1986, 1996 & 2001

**Table 2**  
**Selected Financial Indicators of LPD Mas of Ubud, Gianyar, Bali**  
**1996 and 2001**

Indicators	December 1996	December 2001
• <u>Efficiency:</u> Operating cost ratio	0.23	0.22
Salaries as percentage of average loans outstanding	0.02	0.02
• <u>Productivity:</u> Outstanding loans/staff (million Rp)	45.4	477.1
Borrowers/staff	104	146
Savings/staff (million Rp)	5	14.5
Savers/staff	204	488
Time deposit/staff (million Rp)	35.8	398.7
Depositor/staff	20	46
• <u>Profitability:</u> Return on Assets (%)	4.9	7
Return on Equity (%)	55.7	143.9
• <u>Self-sustainability:</u> Operational self-sufficiency	87.4	106.4
Financial self-sufficiency	-	-

**Table 3**  
**Outreach of LPD Mas of Ubud, Gianyar, Bali, 1996 and 2001**

Indicators	1996	2001
<b>Clients and Staff outreach:</b>		
• Number of borrowers	764	1607
• Number of savers	1,429	5377
• Number of depositors	138	513
• Number of staff	7	11
• Percentage of total target clientele serviced (%)	-	15.8
<b>Loan outreach:</b>		
• Volume of outstanding loans (million Rp)	317.9	5,248
• Average loans per borrower (million Rp)	0.41	3.26
• Average loans per borrower as percentage of GRDP per capita <sup>1)</sup>	-	0.82
<b>Saving/Deposits outreach:</b>		
• Volume of savings (million Rp)	34.9	1,593.6
• Average savings per saver (million Rp)	0.24	0.99
• Volume of time deposits (million Rp)	250.8	4,383.7
• Average deposits per depositor ((million Rp)	1.8	8.5

*Note:* <sup>1)</sup> Based on GRDP per capita of Ubud sub-district at current price in 2001 was Rp 3.95million

Source: LPD Mas of Ubud, various financial reports, 1995 & 2001 (computed by the author)