

Business Strategy Formulation of Sharia Rural Bank (SRB) in Facing Pandemic

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Abstract

This study was conducted to formulate a business strategy for a sharia rural bank whose performance has decreased because the financing sector served is affected by Covid-19. This study is applied research that is qualitative and uses a single case study approach. Primary data was obtained through interviews with several members of the board of commissioners, members of the board of directors, and heads of divisions. Secondary data were obtained from internal company documents, while external sources were mostly from regulatory bodies for the sharia banking industry in Indonesia. A framework from David et al. (2020) is used to obtain a business strategy formulation. For the upcoming three years, the business strategy that should be carried out are market penetration and product development, i.e., conducting selective increase in financing in prospective sectors, conducting coaching in the micro and small sectors so that they can better cope with the impact of Covid-19, and developing products for first-time young customers.

Keywords: *sharia rural bank, business strategy, market penetration, product development, qualitative study, applied research, case study*

A. INTRODUCTION

There are three types of Islamic or sharia banking in Indonesia, Sharia Commercial Bank (SCB), Sharia Business Unit of a Conventional Bank (SBUC), and Sharia Rural Bank (SRB). There are two economic activities carried out by SRB, the monetary and real sectors. Financing in the real sector for buying and selling products is carried out using profit-sharing-based financing, while in the monetary sector, the SRB keeps savings and depo sits under a profit-sharing scheme ([FSA, February 2022](#)).

PT. Bank Pembiayaan Rakyat Syariah (Sharia Rural Bank; SRB) Serikat Perjuangan Ummat (not real name) or SRB-SPU is headquartered in the city of Bandung, in the province of West Java. The focus of SRB-SPU financing is mainly on Micro Small and Medium Enterprises (MSMEs) engaged in the manufacturing business sector (40%), construction (25%), trade, restaurants, and hotels (20%), transport, and cargo storage (10%), and miscellaneous. The financing is mainly for working capital (55%), consumption (40%), and investment (5%).

All business sectors that became the SRB-SPU financing market were affected by Covid-19 during the first wave in 2020 and the second wave in 2021. As a result, the financial performance of the SRB-SPU throughout 2020 and 2021 declined, although depositor funds experienced a slight increase. Therefore, a study was conducted to identify the factors that could potentially affect the performance of the SRB-SPU in the future and then formulate the relevant business strategies. In contrast to the habit of formulating a business strategy for the next five years, this uncertain situation has forced the company to develop a strategy for only three years, from 2022 to 2024. This study is also expected to complement the SRB-SPU with a business strategy document because the SRB-SPU has never formulated a formal business strategy.

This research was conducted to obtain the formulation of the SRB-SPU business strategy for the next three years. Specifically, this research aims to identify external and internal factors that may affect the company's performance, develop alternative business strategies, and determine business strategy priorities.

B. LITERATURE REVIEW

([David et al. 2020](#)) developed an analytical framework for formulating business strategies. According to (Sierotowicz 2020 and Nábrádi et al. 2021), the analytical framework developed by ([David et al. 2020](#)) is very systematic and easy to follow. The framework consists of three stages. In the first stage, the Input Stage, the information needed to formulate a business strategy is compiled in three matrices, namely External Factors Evaluation (EFE) Matrix, Internal Factors Evaluation (IFE) Matrix, and Competitive Profile Matrix (CPM).

The EFE Matrix compiles strategic issues from the external environment, namely potential opportunities and threats from the macro external environment and the industrial environment ([Alamanda et al., 2019](#), [Syafarudin & Mulyana, 2019](#)). The purpose of compiling the EFE Matrix is to find out how well the company can capture potential opportunities and overcome potential threats ([David et al., 2020](#)). Identification of potential opportunities and threats is carried out using two analytical tools, namely PESTLE Analysis and industry analysis. PESTLE stands for factors in the external macro-environment: Politics, Economy, Social, Technology, Legal, and Environment. While the industry analysis or Porter's five forces framework (rivalry of existing competitors, the threat of new entrants, bargaining power of suppliers and buyers, threats of substitute products) is based on the perception that an organizational strategy should encounter the potential opportunities and threats in the organizations' industry context ([Porter, 1980](#)).

The IFE Matrix compiles strategic issues from the company's internal environment, namely strengths and weaknesses ([Alamanda et al., 2019](#), [Syafarudin, & Mulyana, 2019](#)). The purpose of developing the IFE Matrix is to determine how well the company's current capabilities and internal resources are ([David et al., 2020](#)). Identification of the company's strengths and weaknesses is made with the help of Competitive Profile Matrix (CPM). CPM is structured to see the company's relative position against its closest competitors using relevant key indicators in the industry ([David et al., 2020](#)). Through CPM, the company can identify internal factors that must be utilized in future business strategies and internal factors that must be improved. Strengths and weaknesses were also identified through interviews with directors and executives responsible for company functions, such as finance, marketing, human capital, operational, risk and compliance, and information technology.

The second stage is the Matching Stage, where through this stage, business strategy alternatives are developed. (David et al. 2020) provides two alternative analysis tools, the Internal-External (IE) Matrix and the SWOT (Strengths, Weaknesses, Opportunities, Threats) Matrix. In this study, the IE matrix was used to find out what business strategies should be used by the company; and the TOWS matrix used to detail the business strategy (David et al., 2019).

The third stage is the Decision Stage. At this stage, an analysis of the strategic alternatives generated from the previous stage is carried out to determine the priority business strategy to be carried out. The analytical tool used at this stage is the Quantitative Strategic Planning Matrix (QSPM) (David et al., 2017; 2020).

C. RESEARCH METHOD

This study is applied research, where the results of the study are valuable for the object of study (the company) as a solution to the problems it faces (Bougie & Sekaran, 2019). The paradigm adopted is the qualitative paradigm. An exploratory case study methodology is implemented where the researcher has little control over events, although they can directly observe phenomena in an authentic context (Yin, 2017). (Halinen and Törnroos, 2005) underline that, rather than statistical representation, case studies offer depth and comprehensiveness for understanding a particular phenomenon. Other valuable reasons for the use of case studies are also mentioned, such as the evaluation of specific cases to support companies in implementing change, which is in line with the objectives of this study. Specifically, the identification of strategic issues originating from the external macro-environment, the industrial environment, and the internal environment may affect the performance of a shariah rural bank in Indonesia. Then a business strategy is designed to address the challenges or strategic issues for the next three years.

The object of the study is PT Sharia Rural Bank of Serikat Perjuangan Ummat (SRB-SPU); the name has been disguised because this company is private, and its reputation may be compromised due to exposure to the public regarding its poor performance. This bank was initially established as a conventional rural bank in 2008 in Bandung, West Java Province. However, in 2011 it changed from a conventional bank to a bank based on Islamic Sharia, and the business name became PT Sharia Rural Bank (SRB) of Serikat Perjuangan Ummat (SRB-SPU). SRB-SPU already has two branch offices, and six cash offices spread across cities and districts in the province of West Java in Indonesia. In December 2020, the total assets of SRB-SPU reached US\$ 7.1 million, thus entering the bank category with the asset category above US\$6.96 million to US\$17.41 million (FSA, September 2019; Astriawan, 2019; Nugroho, 2020). The number of permanent employees is 68 people (including the board of directors), and complying to FSA's regulations the bank can only operate in the province of West Java, according to the location of its head office.

Primary data were obtained from interviews and group discussions with two members of the board of commissioners, three members of the board of directors, and four heads of divisions. External data is obtained from internal company documents and external sources, mostly from government agencies such as Bank Indonesia (BI) and the Financial Services Authority (FSA). The data is then processed by following the structure and systematics of the company's business strategy formulation from (David et al. 2020).

The SRB-SPU was chosen for this case study for three reasons. First, SRB does not only play a role in financing to MSMEs as the main target for driving the micro and medium economy but also in assisting and managing existing funds so that MSME finances will become more accountable, credible, transparent, and manageable (Sofyan, 2021). Second, studies on SRB generally discuss financial and sharia aspects, not management aspects, especially business strategy. Finally, the last reason is that because the study of business strategy is generally carried out on large and national conventional companies.

D. DISCUSSION

Sharia Rural Banking Industry. Industry analysis is performed to identify potential opportunities and threats in the external environment. Based on data from the Directorate General of Population and Civil Registration (Dukcapil) of the Ministry of Home Affairs, 236.53 million people (86.88%) are Muslim (Kusnandar, 2021). It makes Indonesia the country with the largest Muslim population globally, or about 12.6% of the entire Muslim population in the world. Not surprisingly, until December 2021, sharia banking in Indonesia continues to show positive developments with assets, financing, and depositor Funds that continue to grow (Table 1).

Table 1. Indonesia Islamic Banking Assets, Financing, and Third-Party Funds (in Trillion Rupiah)

	ASSET	FINANCING	DEPOSITOR FUNDS
Dec-2018	435	293,5	341,9
Dec-2019	489,7	329,3	380
Dec-2020	538,3	365,1	425,3
Dec-2021	608,9	394,6	475,8

Source:

Sharia Banking Statistics February 2022. Banking Licensing and Information Department, Financial Services Authority

The increase in the market share of sharia banking in Indonesia is not too significant, from 5.57% in 2015 to 6.65% in 2021. Specifically, the SRB market share among Islamic banks in Indonesia was only 2.52% in 2015, to 2.46% in 2020 ([FSA, December 2021](#)). Moreover, based on the Sharia Banking Transformation Study compiled in 2018, several strategic issues still hinder the acceleration of sharia banking business growth, including the absence of significant business model differentiation, sub-optimal quality and quantity of human resources, and the low level of literacy and financial inclusion of the Indonesian people ([FSA, February 2022](#)).

According to Sharia Banking Statistics for January 2022, the number of SCBs is 15, SBUC is 20, and SRB is 164. As shown in Table 2, the number of SRBs did not change significantly, from 155 in 2011 to 164 in 2021. As of December 2021, the total number of SRB head offices and branch offices was 495 spread across 24 provinces (out of 33) in Indonesia. This number is very small compared to the headquarters and branch offices of SCB and SBUC of 2479, still strengthened by the number of ATM networks of 4097 ([FSA, February 2022](#)). The cause of the limited number of SRB branch offices is the existence of Law Number 21 of 2008 concerning Islamic Banking and Bank Indonesia Regulation Number 11/23/PBI/2008 dated July 1, 2009, concerning SRB. It was stated, among other things, that the SRB could only open a branch office in one area with its head office ([FSA, 2013](#)). In addition, to open a branch office, one must also add a paid-up capital of at least 75 percent of the total capital at the location of the branch office to be opened.

Table 2. Number of Sharia Rural Bank 2011-2021

YEAR	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
NUMBERS	155	158	163	163	163	166	167	167	164	164	164

Source: *Sharia Banking Statistics January 2022, Banking Licensing and Information Department, Financial Services Authority*

Table 3 shows the number of SRB assets, financing, and depositor funds per December 2020. Indonesia's economic growth in 2017 was 5.07%, 2018 was 5.17%, 2019 was 5.02%, while in 2020 experienced a contraction of 2.07 % ([SI, February 2021](#)). Thus, compared to Indonesia's economic growth in the last four years, the SRB industry is one of the industries with high growth.

Table 3. Assets, Financing, and Depositor Funds, of Sharia Rural Bank (In Trillion Rupiah)

	ASSET	FINANCING	DEPOSITOR FUNDS
Dec-2018	10,84	7,76	6,99
Dec-2019	12,36	9,08	8,13
Dec-2020	12,4	9,4	8,13
Dec-2021	14,9	10,68	9,82

Source: *Sharia Banking Statistics December 2021, Banking Licensing and Information Department, Financial Services Authority Republik Indonesia*

In practice, the distribution of sharia rural bank funds is still similar to conventional rural banks. The profit-and-loss sharing scheme (*mudharaba* and *musharaka*), an ideal Islamic financing scheme, is rarely implemented in Indonesia because of its high risk and low return nature. As a result, these schemes tend to be unattractive to Islamic financial institutions and their customers. Therefore, it is not surprising that *murabaha* dominates the industrial financing portfolio in Indonesia (Table 4). *Murabaha* is a sale-purchase contract between the bank and the customer. The bank will purchase or order goods according to the customer's request and then sell them to the customer at the purchase price plus the agreed profit of the bank. In 2020 and 2021 *murabaha* accounted for more than 65 percent of the financing portfolio of Islamic banks, while both *mudharaba* and *musharaka* accounted for less than 20 percent (FSA, December 2021). *Musharaka* is a profit-sharing-based contract, where Islamic banks do not fully bear the business/investment capital needs. *Mudharabah* is a collaboration between the bank as the owner of the funds (*shahibul maal*) and the customer (*mudharib*) who has the expertise or skills to manage a productive and halal business. Profits from the use of these funds are shared based on an agreed ratio.

Table 4. Financing Rank and Composition of Sharia Rural Bank

RANK	2019	2020	2021
Based on Akad			
1	<i>Murabaha</i>	<i>Murabaha</i>	<i>Murabaha</i>
2	Multipurpose Financing	<i>Musharaka</i>	<i>Musharaka</i>
3	<i>Musharaka</i>	Multipurpose Financing	Multipurpose Financing
4	<i>Mudharaba</i>	<i>Qardh</i>	<i>Qardh</i>
5	<i>Qardh</i>	<i>Mudharaba</i>	<i>Mudharaba</i>

Source: Sharia Banking Statistics December 2021, Banking Licensing and Information Department, Financial Services Authority Republic of Indonesia

Mudharaba financing is one solution to increase the income of Islamic banks in carrying out their business activities because the profits obtained are determined by the success of the business managed by the *mudharib* (Maruto, 2016). It means that if the customer's business gets high profits, the income of Islamic banks also increases. However, the small amount of *mudharaba* financing can be caused by the limited number of investment managers in SRB, and the financing carries a higher risk (Saron, 2019). Therefore, adequate human resources are needed to overcome these conditions so that the financing can be returned in accordance with the agreed contract.

Industry analysis using Porter's Five Forces (Porter, 1980) shows that the Islamic finance bank industry is not attractive. Industry profitability is low due to pressure from high competitive forces (Table 5). The worrying condition is that the pressure from substitute institutions are getting stronger both now and in the next three years. Buyers (customers; investors) who use saving products are more interested in the high yields offered by conventional banks, rural credit banks, and savings and loan cooperatives. The emergence of investment opportunities from financial technology (fintech) companies also makes individual buyers (investors/lenders) prefer to put their funds in substitute institutions. The number of buyers (borrowers) using financing platforms through fintech has also increased in the last five years. FSA data shows the accumulated amount of financing through fintech in December 2021 reached IDR 295,85 trillion (FSA, February 2022). Meanwhile more traditional buyers (borrowers) who use financing products prefer conventional banks that offer People's Business Loans (Kredit Usaha Rakyat; KUR), Smart Act branchless banking service for financial inclusion (Laku Pandai), conventional rural banks (Bank Perkreditan Rakyat; BPR), and savings and loan cooperatives (FSA, February 2022).

Table 5. Industry Analysis of SRB

NO	STRENGTH	CURRENT CONDITION	PRESSURE ON MARGIN	CONDITION FOR 3 YEARS AHEAD	PRESSURE ON MARGIN
1	The threat of New Entrants	There are no restrictive regulations; The amount of capital required is not high	HIGH	No changes	HIGH
2	Rivalry among Existing Competitors	Number of players 164; The products offered are relatively the same; The difference is only in the areas and sectors financed; The provinces of West Java, Central Java, and East Java have the highest number of SRBs in Indonesia or around 48.78%; High switching cost, SRB location is a factor that makes buyers choose SRB; High industrial growth;	MEDIUM	No changes	MEDIUM
3	Bargaining power of Buyers	In 2019, Indonesia had 64.19 million micro, small and medium enterprises (MSMEs) or around 99.99 percent of the total business units spread across the country, with an average increase of 10% per year. The products offered are relatively the same; The difference is only in the financed sector; High switching cost, SRB location is a factor that makes buyers choose SRB; Buyer has strong substitutions	HIGH	The pandemic has affected around 30% of small and medium-sized businesses	HIGH
4	Bargaining power of Suppliers	Suppliers are the owners of funds, namely investors and customers who want high-profit sharing and have strong substitutes	HIGH	No changes	HIGH
5	Threats of Substitutes	High numbers of conventional banks, conventional rural banks, sharia banks, sharia business unit of a conventional bank, savings and loan cooperatives, financial technology (fintech), offering high returns and low costs	HIGH	No changes	HIGH

Source: The results of data processing by researchers

Potential Opportunities and Threats from Sharia Rural Bank Industry. Apart from industry analysis, potential opportunities and threats that may impact players in the SRB industry are identified from the macro external environment using the PESTLE analysis tool (David et al. 2020). From the **political** aspect, three issues can become potential opportunities. First, there is a Roadmap for the Development of Indonesian Sharia Banking for 2020 – 2025, prepared with the vision of realizing sharia banking that is resilient, highly competitive, and contributes significantly to the national economy and social development (FSA, February 2021). Second, the Strategic Plan of the Ministry of Cooperatives for 2020-2024 targets 500-1000 new (modern) cooperative models and produces 700-3500 cooperative-based start-ups initiated by millennial entrepreneurs (Ministry of SME Cooperatives, June 2020). Third, the Indonesian government’s Digital Finance Innovation Road Map and Action Plan 2020-2024 will accelerate the digital transformation of banking in Indonesia (FSA, August 2020).

From the **economic** aspect, there are potential opportunities as well as potential threats. Based on data from the Ministry of SME Cooperatives in 2020, Indonesia has 64.19 million MSMEs, or around

99.99 percent of the total business units spread throughout the country. There are about 62 million micro-enterprises with a turnover around US\$20.000 per year, while small businesses are recorded at 757,090 units with a turnover of over US\$20.000 to US\$ 175.000 per year, and medium-sized enterprises are recorded at 58,627 units with a turnover of US\$ 175.000 up to US\$ 695.000 per year ([Ministry of SME Cooperatives, June 2020](#)). A survey conducted by Central Bank of Indonesia showed that until the end of 2020, 87.5 percent of MSMEs were affected by the Covid-19 pandemic. Of this number, around 93.2 percent of them were negatively affected on the sales side ([SI, 2020](#)). The pandemic has put pressure on revenues, profits, and cash flow so that business owners choose to reduce operational activities ([Sonobe, et al. 2021](#)). The survey also revealed that 12.5 percent of respondents were not affected by the economic impact of the Covid-19 pandemic, and even 27.6 percent of them showed an increase in sales. The Ministry of SME Cooperatives estimates that by the end of 2021 more than 75% of MSMEs affected by the Covid-19 pandemic will recover, while in the next three years, there will be new MSMEs that are more accustomed to operating in a “new normal” situation ([Ministry of SME Cooperatives, June 2020](#); [Sonobe, et al. 2021](#)).

Another potential opportunity from the economic aspect is Indonesia’s economic growth. The World Bank estimates that Indonesia's economic growth in 2022 will grow 5.1% yoy, also projects that Indonesia's economic growth will continue to increase. In 2023, the World Bank estimates that Indonesia's economic growth could reach 5.3% yoy, even in 2024. More optimistic, the OECD and ADB project that Indonesia’s economic growth in 2023 will reach 6.42% and will increase to 6% in the following years ([SI, February 2022](#)).

From the **social** aspect, the population of Indonesia is 270.2 million people, with a growth rate of 1.25% per year (2020 census) ([SI, January 2021](#)). 70.72% of the population is in the productive age (15-64 years). Meanwhile, the population consists of 27.94% Generation Z (born 1997-2012), 25.87% Millennial Generation (born 1981-1996), and 21.88% Generation X (born 1965-1980). In addition, with 49.9 million people, West Java is the province with the highest population in Indonesia ([SI, January 2021](#)).

From the **technology** aspect, the digital banking 4.0 era or technological advances in the banking industry is an opportunity for banks in Indonesia to be more innovative in providing services to customers. The increasing number of digital banks in Indonesia, from only 1 in 2016 to 6 in June 2022. According to the national banking road map with the theme “Digital First,” several banks have made a roadmap to turn into fully digital banks in the next five years, which is transformed but still retains its conventional side ([FSA, August 2020](#)).

The results of identifying potential opportunities and threats are then compiled in the External Factors Evaluation (EFE) Matrix table, as shown in Table 6. The weights and scores are obtained through discussions with the directors and SRB-SPU head of divisions. The weights indicate how much impact the opportunities or threats have on players in the industry, while ratings indicate the quality of the SRB-SPU’s strategic response to seize opportunities or overcome threats ([David et al., 2020](#)).

Table 6. External Factors Evaluation Matrix of SRB-SPU

NO	FACTORS	WEIGHT (W)	RATING (R)	W*R
Potential Opportunity				
1	There is support from Indonesian government policies and regulations (Politics)	0.111	4	0.444
2	The existence of digital technology for banking so that banks can be more innovative in providing services to customers (Technology)	0.081	2	0.162
3	There is a Strategic Plan from the Ministry of Cooperatives to increase the number of modern cooperatives and start-ups (Politics, Economy)	0.0645	3	0.1935
4	There is optimism that the projection of Indonesia's economic growth in the next three years will improve/recover (Economy)	0.0373	4	0.1492
5	There is an increase in the population with the dominance of the productive age population and the millennial population; The province with the highest population is West Java Province (Social)	0.0191	4	0.0764

Potential Threats				
1	There is an increase in lending through fintech (Economy, Substitute)	0.1518	2	0.3036
2	There is uncertainty and limited activities due to the Covid-19 pandemic (Social, Economy)	0.1336	3	0.4008
3	There is tough competition from conventional banks (Economy, Substitute)	0.1204	3	0.3516
4	There is tough competition from conventional rural banks (Substitute)	0.1172	3	0.333
5	There is tough competition from savings and loan cooperatives (Substitute)	0.0945	3	0.2835
6	There is an increase in the number of digital banks targeting millennial customers (Technology, Substitute)	0.0699	2	0.1398
TOTAL		1		2.8374

Source: results of data processing by researchers

From Table 6, it is known that almost 75% of strategic issues that have an impact on the SRB industry come from six of the total 11 strategic issues. The highest weight (0.1518) came from SRB substitution institutions, namely lending by fintech. Continued successively by the uncertainty of Indonesia's economic recovery and MSME activities due to the pandemic and limiting activities. (0.1336), people's credit products and Smart Act branchless banking services from conventional banks (0.1204), credit facilities from conventional rural banks (0.1172), and savings and loan cooperatives (0.0945). The only potential opportunity that has a high weight is the very large number of MSMEs in Indonesia, although affected by the pandemic, the number continues to grow (0.111). The weighted value of the SRB-SPU is 2.8374 or above the average of 2.5, indicating the company can still seize opportunities and overcome threats.

Analysis of Performance Relative to Other SRBs. A performance comparison analysis was conducted to identify strengths and weaknesses between SRB-SPU and other SRBs in the SRB assets category above US\$6.96 million to US\$17.41 million (Table 7a). In addition, a comparison of the performance of the SRB-SPU with other SRBs operating in the same province without asset limitation is also carried out (Table 7b), considering that SRBs in Indonesia can only operate within the region/province. The SRB selected to compare the SRB-SPU performance is the SRB that provides complete data to the FSA in the last three years and follows the rankings routinely carried out in Indonesia every year.

As performance indicators, five main criteria are used, namely capital, asset quality, profitability, liquidity, and efficiency, with the following details: (1) The capital aspect consists of CAR (Capital Adequacy Ratio) position with a weight of 15% (1A) and capital growth with a weight of 5% (1B); (2) Asset quality is measured by NPF (Non Performing Financing) with a weight of 15% (2A) and financing growth with a weight of 5% (2B); (3) Profitability is measured by ROA (Return on Average Assets) with a weighting of 7.5% (3A), ROE (Return on Average Equity) with a weighting of 7.5% (3B), and profit growth for the year with a weight of 5% (3C); (4) Liquidity is measured by FDR (Financing to Deposits Ratio) with a weight of 15% (4A) and growth of third party funds (5%) (4B); and (5) Efficiency is measured from the ratio of operating costs to operating income (BOPO) with a weight of 10% (5A) and from NCOM (Net Core Operational Margin) with a weight of 10% (5B) (FSA, September 2019; Astriawan, 2019; Nugroho, 2020, Soleh, et al. 2020).

Table 7a. SRB Performance Comparison with Assets Category above US\$6.96 million to US\$17.41 million in 2020

NO	SRB	ASSET	1a	1b	2a	2b	3a	3b	3c	4a	4b	5a	5b	TOTAL
		US\$ mio												
1	HIKT	10.35	15	5	14.52	5	7.5	7.5	5	15	5	10	10	99.52
2	BPB	8.17	15	5	13.84	5	7.5	7.5	5	15	5	10	10	98.84
3	HIKS	12.12	13.85	5	14.71	5	7.5	7.5	5	15	5	10	10	98.56
4	ICAJ	8.65	15	5	13.5	5	7.5	7.5	5	15	5	9.99	8.15	96.64
5	BL	7.41	15	5	13.03	2.8	7.5	7.42	5	15	5	9.85	10	95.6
6	HW	7.86	15	5	13.25	5	7.5	7.5	5	13.34	5	10	7.25	93.84

7	SPU	7.1	12.15	5	13.68	5	7.5	7.5	5	15	5	10	7.25	93.08
8	MCI	11.17	15	5	12.87	5	7.5	7.5	5	13.46	5	9.64	6.86	92.83
9	BB	7.42	15	5	13	5	7.5	7.5	0.43	15	5	9.25	6.33	89.01

Source: [Financial Services Authority, December 2021, January 2022](#); [Astriawan, 2019](#); [Nugroho, 2020](#), processed by authors

Table 7b. Comparison of SRB Performance Operating in West Java Province in 2020

NO	SRB	ASSET	1a	1b	2a	2b	3a	3b	3c	4a	4b	5a	5b	TOTAL
		US\$ mio												
1	PBB	18.16	15	5	14.85	3.54	7.5	7.43	5	15	5	10	10	98.32
2	ARB	6.49	15	5	14.87	5	7.5	7.5	5	15	5	10	10	99.87
3	BPB	8.17	15	5	13.84	5	7.5	7.5	5	15	5	10	10	98.84
4	HIKC	38.13	13.68	5	14.43	5	7.5	7.5	5	15	5	10	10	98.11
5	HIKP	104.1	13.84	5	14.1	5	7.5	7.5	5	15	5	10	10	97.94
6	ICAJ	8.65	15	5	13.5	5	7.5	7.5	5	15	5	9.99	8.15	96.64
7	ASAS	23.85	15	5	12.56	3.27	7.5	7.5	5	15	4.04	9.17	10	94.04
8	SPU	7.1	12.15	5	13.68	5	7.5	7.5	5	15	5	10	7.25	93.08

Source: [Financial Services Authority, December 2021, January 2022](#); [Astriawan, 2019](#); [Nugroho, 2020](#), processed by authors

From Table 7a, it can be seen that among SRBs with assets category above US\$6.96 million to US\$17.41 million, SRB-SPU ranks 7th with weaknesses, especially in the CAR aspect (point 1A; weight 15%), NPF (point 2A; weight 15%), and NCOM (point 5B; weight 10%). Meanwhile, among SRBs operating in West Java Province, SRB-SPUs is ranked 8th with weaknesses in the same aspects.

CAR calculation is obtained by comparing own capital with risk-weighted assets (RWA) calculated by the bank. In accordance with the regulation, the best CAR size is set equal to or above 20%. Banks with For banks with CAR below 8% the score is 0%; CAR 8% to 12% the score is 81%; and CAR above 12% to below 20% (national banking average) the score is 81%. The weakness of SRB-SPU is mainly in asset quality, with a declining collectability level compared to 2019.

The NPF value shows the ratio between non-performing and total financing, with the best NPF value being 0% (FSA, September 2019; [Astriawan, 2019](#); [Nugroho, 2020](#)). The smaller the NPF, the higher the score, the 0% NPF is 100%, NPF >5% to <10% the score is up to 81% ([FSA, September 2019](#)). The weakness of the SRB-SPU mainly stems from the business sector, which has been the primary market for financing. Meanwhile, the NCOM calculation is obtained by comparing net interest income after profit sharing with earning assets ([FSA, September 2019](#); [Astriawan, 2019](#); [Nugroho, 2020](#)). The best figure of 11% is the national BPRS industry average. Thus, even though the SRB-SPU has a relatively low score compared to the comparison SRB, the NCOM shows that the bank is still healthy, let alone an increase in net income.

Company Strengths and Weaknesses. In addition to considering the factors that compare performance between SRBs at the national level, SRB-SPU strengths and weaknesses are also obtained through internal analysis of functions that are considered necessary, namely marketing functions, operational functions (including risk analysis), human resources functions, and information technology functions. Strengths and weaknesses are compiled in the Internal Factors Evaluation matrix (IFE Matrix), as shown in Table 8. The weights and scores were obtained through discussions with the board of directors and SRB-SPU managers. The weights indicate how important the strength or weakness factor is for the company, while a rating of 4, 3, 2, and 1 indicates a major strength, minor strength, minor weaknesses, and major weakness, respectively, of the SRB-SPU ([David et al., 2020](#)).

Table 8. Internal Factors Evaluation (IFE) Matrix

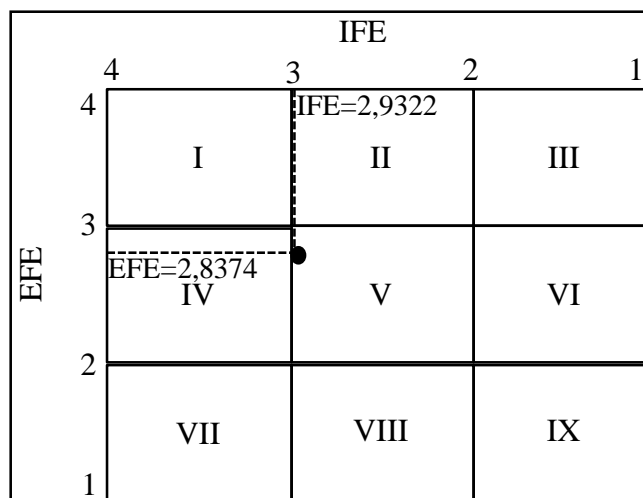
NO	FACTORS	WEIGHT (W)	RATING (R)	W*R
	Strengths			
1	Implementing strict GCG	0.1517	4	0.6068
2	HR at least a bachelor's degree and generally certified in their field	0.1516	4	0.6064

3	Good relationship with customers	0.1289	4	0.5156
4	Experienced an increase in depositor funds due to competitive profit sharing offers	0.1068	4	0.4272
5	Strong risk control	0.0286	3	0.0858
Weaknesses				
1	The financing sectors are sectors affected by Covid 19	0.1744	1	0.1744
2	Digital infrastructure is still limited for internal administration	0.1057	2	0.2114
3	The products offered are limited in number	0.0967	2	0.1934
4	Limited branch/cash office network	0.0556	2	0.1112
Total		1		2.9322

Source: the results of data processing by researchers

From Table 8, it is known that the weighted value of the SRB-SPU IFE is 2.9322 or above the average of 2.5, which indicates that the company currently has good internal capabilities. SRB-SPU's major strengths are the strict implementation of GCG, quality human resources, good relations with customers, and the ability to increase depositor funds due to competitive profit-sharing rates. On the other hand, the main weakness of the SRB-SPU is in its financing sector, which is highly affected by Covid-19.

Development of Alternative Strategies. An alternative strategy was developed after obtaining the compilation of potential opportunities and threats in the EFE matrix and the compilation of internal strengths and weaknesses in the IFE matrix. First, alternative strategies are developed using the Internal-External Matrix (IE Matrix) (David et al., 2020). Figure 1 shows the position of SRB-SPU in the IE matrix with an IFE weighted value of 2.9322 and an EFE-weighted value of 2.8374, so the SRB-SPU is in the hold and maintains cell. According to (David et al. 2020), the business strategy alternatives that companies in this cell should take are market penetration and product development.



Source: the results of data processing by researchers

Figure 1. Internal-External Matrix SRB-SPU

Second, the development of alternative strategies is carried out using the TOWS Matrix. By considering the location of the SRB-SPU in the IE Matrix, the development of alternative strategies is only focused on market penetration and product development. Discussions in the form of workshops conducted with the owners (board of commissioners), the board of directors and executives in the fields of finance, marketing, and HR resulted in five alternative strategies.

SO (Strengths-Opportunities) Strategy is a strategy in which companies use strengths to seize opportunities. SRB-SPU can carry out (1) Product development: development of new savings products aimed at young prospective customers from high school/vocational high school students; (2) Product development: development of financing products for prospective millennial entrepreneurs by providing coaching assistance to these prospective entrepreneurs; and (3) Market penetration: Opening a cash office to make it easier to reach the market.

WT (Weaknesses-Threats) Strategy is a strategy where companies take advantage of opportunities to overcome their weaknesses. SRB-SPU can perform (1) Product development: development of new savings products aimed at young prospective customers from high school/vocational high school students; (2) Product development: development of financing products for prospective millennial entrepreneurs by providing coaching assistance to these prospective entrepreneurs; (3) Market penetration: Opening a cash office to make it easier to reach the market; (4) Market Penetration: maintain liquidity while maintaining financing growth and growth of third party funds, financing growth must be carried out selectively in prospective sectors; and (5) Market penetration: guiding the micro, small and medium sectors in order to better deal with the pandemic.

ST (Strengths-Threats) Strategy is a strategy where companies can take advantage of strengths to overcome threats. SRB-SPU can carry out (1) Product development: cooperate with fintech companies to become a source of sharia-based financing; (2) Market Penetration: maintaining liquidity while maintaining financing growth and growth of third-party funds, financing growth must be carried out selectively in prospective sectors; and (3) Market penetration: guiding the micro, small and medium sectors in order to better deal with the pandemic.

WT (Weaknesses-Threats) Strategy is a strategy where the company improves its weaknesses to overcome potential threats. In addition to the alternative strategies that have been developed and can apply here, two things must be performed by SRB SPU regardless of the priority strategy that will be implemented, namely (1) relaxation for affected debtors; and (2) investment in strengthening internal digital capabilities that will enable them to serve customers better, reach a broader market, and develop more innovative products.

After compiling, there are four business strategies that SRB-SPU can carry out. First, to increase financing selectively in prospective sectors followed by coaching in the micro and small sectors to better cope with the impact of covid (Alternative I). Second, the development of financing products for prospective millennial entrepreneurs by providing coaching assistance to these prospective entrepreneurs (Alternative II). Third, new savings products are developed for young prospective customers from high school/vocational high school students (Alternative III). Fourth, cooperate with fintech companies to become a source of sharia-based financing (Alternative IV).

Strategic Priority Setting. After obtaining four alternatives business strategies that SRB-SPU can carry out in the next three years, the priority is set for implementing the strategy. According to David et al. (2019), Attractiveness Scores (AS) in the QSPM show how important or attractive external (opportunities or threats) and internal (strengths and weaknesses) strategic issues are for each alternative strategy. AS is determined by examining each major external and internal factor separately, one at a time, and asking the following question: Do these factors make a difference in our decisions about which strategy to take? If the answer to this question is "yes," then strategies should be compared to these key factors. The AS range is 1 = not attractive, 2 = somewhat attractive, 3 = moderately attractive, and 4 = very attractive. If external/internal factors do not affect the choice made, then AS will be 0. Table 9 contains the calculation results of the four business strategies obtained from the previous Matching Stage stage.

Table 9. Quantitative Strategic Planning Matrix SRB-SPU

NO	OPPORTUNITIES	WEIGHT	I		II		III		IV	
			AS	TAS	AS	TAS	AS	TAS	AS	TAS
1	A large number of MSMEs that SRB can serve	0.111	4	0.444	3	0.333	1	0.111	2	0.222
2	Digital technology development	0.081	1	0.081	2	0.162	3	0.243	4	0.324

3	Ministry of cooperatives support to grow start-ups and modern cooperatives	0.0645	0	0	0	0	0	0	0	0
4	Indonesia's economic growth is positive	0.0373	4	0.1492	3	0.1119	2	0.0746	1	0.0373
5	The population is increasing, especially the productive age population	0.0191	2	0.0382	4	0.0764	3	0.0573	1	0.0191
NO	THREATS	WEIGHT	AS	TAS	AS	TAS	AS	TAS	AS	TAS
1	Activity restrictions and increased business uncertainty due to the pandemic	0.1518	3	0.4554	1	0.1518	2	0.3036	4	0.6072
2	Loans through fintech are increasing	0.1336	3	0.4008	2	0.2672	1	0.1336	4	0.5344
3	Competition from conventional banks	0.1204	4	0.4816	3	0.3612	2	0.2408	1	0.1204
4	Tough competition from Rural Banks (BPR)	0.1172	4	0.4688	3	0.3516	2	0.2344	1	0.1172
5	Tight competition from savings and loan cooperatives and the Savings and Loans Unit (USP) Cooperatives	0.0945	4	0.378	3	0.2835	2	0.189	1	0.0945
6	The increasing number of digital banks in Indonesia	0.0699	0	0	0	0	0	0	0	0
	STRENGTHS									
1	Implementing strict GCG	0.1517	0	0	0	0	0	0	0	0
2	HR at least a bachelor's degree and generally certified in their field	0.1516	4	0.6064	3	0.4548	2	0.3032	1	0.1516
3	A good relationship with customers	0.1289	4	0.5156	3	0.3867	2	0.2578	1	0.1289
4	Experienced an increase in depositor funds due to competitive profit sharing offers	0.1068	0	0	0	0	0	0	0	0
5	Strong risk control	0.0286	4	0.1144	3	0.0858	2	0.0572	1	0.0286
NO	WEAKNESSES	WEIGHT	AS	TAS	AS	TAS	AS	TAS	AS	TAS
1	The financing sector is a sector affected by Covid 19	0.1744	4	0.6976	3	0.5232	2	0.3488	1	0.1744
2	Digital infrastructure is still limited for internal administration	0.1057	0	0	0	0	0	0	0	0
3	The products offered are limited in number	0.0967	2	0.1934	4	0.3868	3	0.2901	1	0.0967
4	Limited branch/cash office network	0.0556	0	0	0	0	0	0	0	0
				5.0244		6.043		4.6405		4.7942

Source: the results of data processing by researchers

The results obtained from the QSPM show that the most likely strategy to be implemented is the second strategy (II, total TAS: 6,043), followed by the first strategy (I, total TAS: 5,0244), the fourth (IV, total TAS: 4,7942), and the third strategy (III, total TAS: 4,6405). Strategy II is a product development strategy, while strategy I is a market penetration strategy. Strategies II and I mainly take

advantage of the strength of good relationships with customers and coaching assistance to financing customers to seize opportunities, especially the increasing number of MSMEs and millennial age groups in Indonesia, and to overcome the threat of substitutes in the SRB industry.

E. CONCLUSION

1. Summary

This study was conducted to obtain a business strategy formulation for the next three years for a sharia rural bank (SRB), SRB-SPU, whose performance was indirectly affected by the pandemic. The business strategy formulation was carried out using the ([David et al, 2020](#)) approach, a systematic and easy-to-use approach to gather opinions from important figures in the company, in this case BOC members, BOD members, and division heads.

The weighted score of the SRB-SPU's EFE is 2.8374 or above the average of 2.5, indicating the company can still seize opportunities and overcome threats; while the weighted IFE is 2.9322 or above the average of 2.5, which indicates that the company currently has good internal capabilities. The combination of the evaluation of the quality of the company's strategic response to the external environment and its internal capabilities indicates that SRB SPU should take a hold and maintain position, where alternative strategies that can be carried out are market penetration and product development. The detailed strategy developed through the TOWS matrix provides several alternative strategies that are prioritized with the help of QSPM. The strategic priority for the next three years is that SRB SPU should carry out product development, namely the development of financing products for prospective millennial entrepreneurs by providing coaching assistance to these prospective entrepreneurs.

2. Suggestions

The Sharia BPR industry in Indonesia is essential because of its role in channeling financing for micro and small businesses proliferating in Indonesia. In general, the SRB industry consists of business entities established by a group of people or social organizations, intending to help the smooth and growth of micro and small-scale businesses. Companies like this have a business plan that focuses on compliance according to performance measures set by the regulator. Therefore, the planning is often reactive only. The preparation of a business strategy can help SRB has an anticipatory approach in carrying out its business. Even in an uncertain situation with the current pandemic, which affected around 87,5% of micro and small businesses, thus having a significant impact on SRB's performance.

The developed business strategy can already show the type of product, financing; target market, millennial entrepreneurs; and uniqueness, providing coaching assistants. In order to be more effective, it is necessary to continue with the formulation of strategies at the functional level, especially in order to be able to determine the type of contract principle (akad) that is used as the basis for product development.

The business strategy development approach developed by ([David, et al, 2020](#)) is a very popular approach. As stated by ([Sierotowicz, 2020](#) and [Nábrádi et al. 2021](#)), the analytical framework developed by ([David et al, 2020](#)) is very systematic and easy to follow. This approach is based on the assumption that the business environment in which the company is located is static, where potential opportunities, threats, and their impact on the company can be predicted. This research was conducted on sharia rural banks with assets of around US\$ 7,1 million (asset category above US\$6.96 million to US\$17.41 million). In the future, the same research should be conducted on sharia banks with asset categories according to the rating of sharia rural banks, namely the asset category of US\$ 3.48 million to US\$ 6.96 million and the asset category above US\$17.41 million. In 2021, several sharia rural banks have managed to have assets above US\$70 million, and it is necessary to examine whether the external and internal strategic issues faced are the same and how they respond strategically in the Covid-19 pandemic situation.

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