

## Strategic Analysis of the Regional Water Company in Cirebon City West Java, Indonesia

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### ABSTRACT

The Regional Water Company of Cirebon City or *Perusahaan Daerah Air Minum* (PDAM) Kota Cirebon is a regional drinking water company in West Java. PDAM Cirebon is located in an urban area; hence, it has limited supply of raw water. The urbanization in Cirebon City has enabled PDAM Cirebon to develop consistently with the population growth and other economic activities in the area. Accordingly, PDAM Cirebon faces challenges and opportunities, as well as exhibits strengths and weaknesses. This research intends to study the nature of PDAM Cirebon using SWOT analysis.

Keywords: strategy, SWOT analysis

## I. INTRODUCTION

*Perusahaan Daerah Air Minum* (PDAM) in Cirebon City (PDAM Cirebon) is a company that was established to serve the need for drinking water of the people of this city and its surrounding areas. PDAM Cirebon carries out two functions in conducting its business. The first function is economic or business in nature, the goal of which is to obtain revenues to manage the company in a sustainable manner, provide clean and adequate water, and share profits with the local government. The second function refers to the provision of services to address community needs for clean water by building a drinking water supply system or *Sistem Penyediaan Air Minum* (SPAM).

Cirebon City is an urban area; thus, it has limited supply of raw water. However, this city has the opportunity to develop that is consistent with its population growth. However, the rate of population growth has implications to the increase in demand for clean water.

## 2. LITERATURE REVIEW

### 2.1 Strategic Planning and Environmental Analysis

Before discussing SWOT analysis, this research will first discuss an organization's strategic plan and its organizational environment to emphasize the strong linkage between strategic planning and SWOT analysis. Alkhafaji (2004) stated that "an important aspect of strategic planning process is strength, weakness, opportunities and threats (SWOT) analysis." By contrast, Jones (2001) defined organizational environment as "the set of forces surrounding an organization that has the potential affect the way it operates and its access to the scare resources."

A strong linkage exists among strategic, environmental, and SWOT analyses. Alkhafaji (2004) further explained the relevance of the elements contained in the

strategic analysis of the internal and external organizational environments in the form of strategic information. The results of this analysis are classified as strengths, weaknesses, opportunities, and threats (SWOT) for organizations

Consistent with Alkhafaji (2004) and Jones (2001), Widyaningdyah and Aryani (2016) analyzed the effects of the diagnostic and interactive performance measurement systems (PMS) on competitive advantage, with the perceived environmental uncertainty (PEU) as an antecedent variable in the environmental linkages of a company and its competitive advantage. PMS, contributes diagnostically and interactively to competitive advantage when managers perceive the uncertainty of the business environment in accordance with resources base theory (RBT).

Hoq, Chauhan, and Barney (in Herath and Mahmood, 2013) explained that strategic orientations have been considered organizational resources. The same thing is stated by Hult et al. (in Herath and Mahmood, 2013) concluded that the interrelation among different strategic orientations provides sustainable competitive advantage for organizations. Herath and Mahmood (2013) further explained that “It is also evident that strategic orientations are very important for the organizations in developing countries” Furthermore, Herath and Mahmood (2013) as they cited Keskim (2006) and Dharmasiri (2009) emphasized the importance of strategic orientation for the success of the organizations in developing countries.

Tresna (2016) explained the linkage of environment with the competitiveness of companies and analyzed the determinants of environmental analysis in the embroidery industry of Tasikmalaya City. Research used SWOT analysis concluded the industry is located in quadrant 2, which means that it is growing.

## 2.2 SWOT Analysis

Harrison (2010) defined SWOT analysis as an evaluation of the internal strengths and weaknesses of an organization's, its opportunities for growth and improvement, and the threats that the external environment presents to its survival.

Ritson (2008) argued that SWOT functions as an analytical tool to analyze the internal strengths and weaknesses, opportunities, and external threats to the organization. The main purpose of SWOT analysis is to identify the related strategies that are suitable to and match the resources and capabilities of an organization with the demands of the environment in which organizations compete.

The results of SWOT analysis provide various alternatives that can be selected by the company to determine the choice of its strategies. In this selection process, companies compare their various alternatives and options, and determine which option generally supports the achievement of the main goal.

Foong (2007) stated that “as a general guideline, SWOT may be categorized into two factors, namely, external and internal factors. External factors refer to elements that are typically outside an individual's own control and often deal with external environmental factors. Foong (2007) provided examples of external factors, namely, political, economic, societal, and technological (PEST) factors.

Free Management Ebook (FME) Team (2013) provided several variations in which PEST, as an analytical tool, is used to analyze the external environment. The application of the most suitable variation is dependent upon the most critical sections. One variation of PEST is the political, economic, sociological, technological, legal, and environmental (PESTEL or PESTLE) analysis.

Furthermore, Foong stated that “ Internal factor refers to factors that are internal in nature and normally within your own control. Examples of factors are capabilities

related factors such as production capability, market knowledge, management of distributors, etc.”

In line with Foong, Alkhafaji (2004) stated that the internal environment refers to the quantity and quality of the physical and human resources of an organization, including finances, managerial talent, and expertise in marketing, production, and research and development, among others. The external environment comprises the operating environment (i.e., forces and conditions within a specific industry) and remote environment (i.e., forces and conditions beyond a specific industry).

### **3. METHOD**

This research uses the descriptive analysis method. Data were collected from primary sources through interviews and secondary data sources, such as company reports, business plan documents, and other relevant sources.

## **4. RESULTS AND DISCUSSION**

### **4.1 Analysis of Strengths and Weaknesses**

The analysis of the internal strengths and weaknesses of an organization covers several aspects of a company. Included in analysis are the aspects of production, marketing, and financial governance.

#### **4.1.1 Analysis of Strengths and Weaknesses of Production**

The production aspect indicates that the strength of an organization lies in the quality of raw water sources and topographic conditions that allow raw water to flow naturally without considerable equipment. The distance of the source of raw water to the distribution system and the human resources field production was show quite position. The longevity of the use of production equipment also indicates strength.

Production weaknesses of an organization refer to the amount of raw materials, which in this case, show a considerably weak position. The reason is that these conditions cannot be indirectly improved by taps. Another crucial weakness is the lack of guarantee of the continuity of supply of water resources. This condition is related to the capacity of the source of raw water that cannot be upgraded. Another weakness lies in the motivation, discipline, and qualifications of employees. Many employees come from the bureaucracy and are not purely corporate employees hired in accordance with the qualification requirements and needs of a company. Moreover, weaknesses are still observed in production facilities. The condition of a few production facilities are old (weak) but can still be used. Accordingly, such condition is also associated with the aspects of equipment.

#### **4.1.2 Analysis of Strengths and Weaknesses of Marketing**

In terms of the marketing aspect, PDAM Cirebon is considered strong because of the quality of products, its compliance with health standards, limited competition substitute product (a relatively small competitor provides an alternative), and its selling price (it is still relatively affordable). The other strengths of PDAM Cirebon lie in its

numerous available prospects and their relationship with the customer that is relatively strong brought about by proper management in handling complaints.

However, PDAM Cirebon also exhibits several disadvantages. This company is weak in terms of its ability to determine the selling price of products that comply with economic price calculation. The reason is that the selling price is determined by Cirebon City. This weakness lies in the equitable distribution of water to all customers. In certain instances, running water is unavailable for 24 hours. Another weakness is in the communication with customers and in meeting new connection requests from potential customers.

#### **4.1.3 Analysis of Strengths and Weaknesses of Governance**

These aspects include the components of PDAM Cirebon that are indirectly related to production and marketing activities but support the implementation of the overall operations of the company in the form of hardware (i.e., means of labor) and software (i.e., systems support).

The results showed that a wide range of hardware that supports company operations, such as infrastructure work, in this category is sufficiently strong. This case was determined to be adequate but still requires optimal management. The same category indicates that the management of information systems do not cover the entire unit.

The strengths in this category are the company's organizational governance support system taps located on the amount of human resources, availability of guidelines, policies, and SOP of work.

In this category, PDAM Cirebon has many weaknesses. This company lacks guidelines on the recruitment of labor and in the resignation process. The reason is that strong external intervention in the recruitment and labor supply processes, particularly from the Cirebon City government. This intervention resulted in low motivation and discipline. Other weaknesses shown in this aspect are the lack of human resources that have specific skills, such as computer programming, inadequate internal control infrastructure, and the rules that guide the rewards and punishment for employees.

#### **4.1.4 Strengths Weaknesses Analysis on Financial Aspects**

A total of 10 indicators are used to measure the aspects of the strengths and weaknesses of PDAM Cirebon. Accordingly, nine indicators are scored to be very strong (e.g., current assets) to quite strong (e.g., ROA and ROI), while one category approaches very weak. The only drawback lies in the operating costs of the company based on its operating revenues. In this case, the weakness of PDAM Cirebon shows that its operating efficiency is still low.

#### **4.2 Analysis of Opportunities and Threats**

The analysis of opportunities and threats includes the legality in government regulations and policies, natural and social environments, socioeconomic and cultural conditions, and other factors.

On the legal aspects, many laws and regulations that guide the management of PDAM Cirebon City can be identified. At least 19 regulations exist, including cooperation agreements among the Cirebon City government and Kuningan regency government. On the one hand, the number of laws and regulations guarantee that all the activity taps have a clear legal basis. On the other hand, these rules overlap and contradict each other.

In the aspect of the natural environment as a source of raw materials, PDAM Cirebon entered into agreements with the government of Kuningan District. This condition can occasionally be a threat if the agreement is decided or canceled unilaterally by Kuningan District.

PDAM Cirebon has an opportunity in the social, economic, and cultural environments. The reason is public awareness of the need to live a decent and healthy life. Moreover, water is a basic need, and Cirebon City is a coastal region, where clean water is difficult to obtain.

The following section describes the overall factors of the opportunities and threats from the external factors of PDAM Cirebon. A total of 12 aspects of opportunities are available for PDAM Cirebon. Opportunity lies in the availability of water provided by gravity, thereby enabling the company to maximize the flow of raw water to a treatment site. Other factors include rainfall, processing systems technology, community participation in conservation, regulation of the sale of flexible pricing, and customer compliance. Moreover, opportunities in the category lies in the support of government and the legislature, purchasing power of the people, environmental facilities, and human resources development center.

At least four potential threats are determined in the aspect of threat. High threat lies in the condition of the people around the source of raw water. In a few cases, the people often become a source of interference on the existence of the water source. Sources of high threat also lie in government regulations related to the authority of taps in the management and control of water resources. The threat turned out to be consistent with the number of laws and regulations that overlap, thereby becoming a cumbersome factor. Another regulatory factor that poses a threat is the unclear pelican act of locally owned enterprises, where PDAM is one form of local enterprise.

## 5. CONCLUSION

The strategic analysis of PDAM Cirebon through SWOT analysis has enabled this study to conclude that a balance exists between the strengths and weaknesses in terms of production and marketing. The financial aspect also has more strengths than weaknesses. In the aspect of opportunities and threats, more opportunities are present than threats. This study concludes that PDAM Cirebon can further grow and expand.

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