

PARTNERSHIP STRATEGY OF VILLAGE OWNED ENTERPRISES (VILLAGE CREDIT INSTITUTIONS AND VILLAGE MARKETS) IN DENPASAR CITY, INDONESIA

Ni Luh Putu Wiagustini

Economic and Business Faculty, Udayana University Denpasar, Bali, Indonesia

wiagustini@yahoo.com

Abstract

This research aims to: (1) identify strategic factors affecting the sustainable development of Village Credit Institutions (LPD) in Denpasar City, Indonesia; and (2) study and analyze the proper Partnership strategic model applied to the LPD empowerment in Village Market in Denpasar City as Village Owned Enterprises (BUMDes). The population is all entire village market in Denpasar city, sample collected by census and data analysis used Strength, Weakness, Opportunity, Threat (SWOT) analysis. This research finds that: (1) intern strategic factors and extern strategic factors are affecting the sustainable development of LPD in Denpasar city, (2) Currently, LPD Denpasar City has its strategic position that is on strong appeal and medium competitiveness. The proper strategy is Growth and Build strategy. (3) The proper Partnership strategic model implemented by LPD with Village Market in Denpasar City as Village Owned Enterprises in Denpasar City is Integrated and Intensive Partnership Strategy.

Keywords: Village owned Enterprises, BUMDes, SWOT, Strategy, Growth, Integrated and Intensive Partnership Strategy

INTRODUCTION

Background Problem

Indonesian Law (UU) number. 32 year 2004 on Regional Government makes change in the regional government implementation. One of the changes is the provision of wider authority in the organization of some government fields and placing village as the decentralization and participation basic. The village becomes decentralization basic implementing the role as *self governing community*, mostly face such problems like (1) village has small village income and

expenditure budget and also its income sources which depend on very small assistance; (2) low village society prosperity so it is difficult for the village to get high village generated revenue; (3) low village operational fund to conduct the services; (4) many development programs come to village but they are just managed by the agency.

Under these conditions, in order to support the village authority and to improve services and community empowerment, the village should have revenue sources consisting of village revenue, the results of local taxes and regency / city levy, part of the balance fund, and central or regional received by the regency / city, assistance from central and local governments as well as grants and donations from the third parties.

One of the new approaches which is expected to stimulate and drive the economy in rural areas is by the establishment of economic institutions managed entirely by the village community, in the form of village-owned enterprises (BUMDes) as Village Financial Institutions, Village Market, Village tourism resort management, C excavation management by not using heavy equipment and other sources. If these resources are properly managed, they will be able to support the economic life dynamics in countryside. In Bali, most BUMDes are composed of Village Credit Institutions (LPD) and the Village Market.

The existence of LPD is regulated by regional regulation No. 3 year 2007, The Amendment of Bali Provincial Regulation No. 8 year 2002 on Village Credit Institutions (LPD). This regulation outlines that LPD conducts business activity in the village and to the villagers. LPD main activity is to collect funds from the public in the form of savings and deposits, and deliver it back to the people who need funds in the form of a loan or credit. Assistance in the form of loans or credits have helped increase opportunities for rural communities so, it is proven to improve the prosperity of rural communities, as well as to support the growth and development of Balinese culture as a national asset.

Since it was first proposed in 1984, the existence of LPD is proven that LPD does not only play its function as a financial institution serving the financial transactions of rural communities, but has also become a solution to fund limited access for rural communities as groups of people with limited economic capacity. This is proven by the development of LPD business volume in Bali which until 2012 it has reached business volume in the form of Party Funds II (Savings and Deposits) amounted to 7159.37 IDR Billion, distributed Loan Amount of 6002.05 IDR billion, LPD Capital of 1002.42, profit of 331.82 IDR billion, and total of overall assets of 8585.12 IDR billion. From the LPD total assets in Bali, 10% (839.71 IDR billion) is managed by LPD in the area of Denpasar City. As the big LPD business volume which has been described, it should get the attention of the Local Government in Bali, as a source of creative economy funding.

Village Market as BUMDes (Village Owned Enterprises) is a traditional market almost in every village and / or Pekraman Village in Bali and is managed by the village and / or Pekraman village itself. The high and low activity level of the Village Market reflects the purchasing power of local communities. The same with LPD, Village Market as BUMDES will be expected to contribute to the village development. The amount of Village Market contribution depends on The Village Market Income. This market income consists of: rent stalls and stands, as well as traders' levy. The higher the intensity of the Market Village, the higher village market contribution to the village Pekraman development.

Recently, BUMDes in Bali (LPD and Village Market) have high level of competition. The high competition of LPD is with many Micro Finance Institutions (MFIs) such as rural banks (BPR), Credit Unions (KSP), National Commercial Bank, and foreign banks entering the village. Meanwhile, the high competition Village Market is caused by many modern markets entering the countryside. High competition faced by BUMDes (LPD and Village Market) will affect their profitability, so that it will influence to their contribution to the Village Revenue. Based on these phenomena, BUMDes (LPD and Village Market) are necessary to find solutions for better management to improve their performance, so will be able to increase the contribution to village revenue.

Some studies such as Metts (2007) find a relation between the pressure of industrial competition, strategy and performance making process. Strategy-making process can reduce the negative effects of strictly industrial competition and performance. The empirical data relating to Micro Finance Institutions, Schafer, et al. (2005) finds that the increased competition influences to their profitability decrease. The higher the level of competition, the management organizations are increasingly required to manage its business into consumer-oriented and pay attention to environmental factor changes (Pearce and Robinson, 2000). Hale (1998) examines the nature and development of cooperation; the results show that the cooperating parties will get the benefit from the cooperation. So the cooperation strategy is important to be considered as a strategy solution to improve the company's performance.

Research on the LPD, which has been done by Wiagustini et al (2014), reveals that the LPD Empowerment is instrumental in encouraging fund raising and distributing it back to the community in the rural development framework at the broad sense. Wiagustini et al (2014) find that LPD Empowerment Model of SMEs as a source of funding is by: (1) market penetration strategy, an increase of more active proactive system to existing SMEs in the LPD concerned areas; (2) product development strategy, as a source of SMEs' funding with the "system of revenue sharing scheme".

A research by Wiagustini et al (2014) has weaknesses in studying Empowerment Model LPD as a source of financing SMEs, only integrating between LPD which has excess funds placed in the Regional Development Banks with SMEs who have limited funds in operational issues, such research is still common to SMEs.

Based on weaknesses of Wiagustini et al research (2014), which is associated with the findings of Metts (2007), Schafer, et al. (2005), (Pearce and Robinson, 2000). Hale (1998), then it becomes the research gap to study about more specific and intensive strategies conducted by LPD and as BUMDes Village Market, which are currently on a very high competitive pressures. LPD and Village Market are local wisdom institutions in Bali, where *awig-awig* (rules) of Pekraman Village is a rule binding these two institutions.

This study tries to offer solutions to improve the profitability of the LPD and the Village Market as BUMDes, to operate the Partnership Strategy. Webster (1992) suggests the Partnership Strategy is a necessary strategy for the company's business environment, where a company needs to have a wide network with other business players including, among others, products' suppliers, services providers, competitors (alliance strategic), and distributors. The importance of the partnership strategy in improving the company's performance, has been investigated by Kerti Yasa (2010) which has found that the intensive *partnership strategy* implementation can improve the company's performance and *partnership strategy* implementation to BPR industry which is mainly supported by the implementation of the *partnership strategy* with customers.

Partnership Strategy is selected to provide a solution to the high competition in the LPD and Village Market as BUMDes, constituted by several considerations, as follows. (1) quite high condition LPD business competition and the Village Market. This business phenomenon can cause decrease performance. Zineldin (1995) reveals that in order to relieve the pressure on the existing industry competition, the Partnership Strategy can operate by inviting the suppliers, customers, and competitors to work together, so the high enough competition can be reduced. (2) Partnership Strategy will bring up the synergy concept; that are bigger results achieved in conducting cooperation compared to the results of company alone. (3) the selection of Partnership Strategy is also supported by some study results conducted by Lee et al., (2007), Kim (2006) and Kerti Yasa (2010) which show that the Partnership Strategy is able to provide a positive influence on performance.

This research is conducted in Denpasar city, because the whole village in Denpasar city has LPD and the Village Market. LPD and Village Market as BUMDes in Denpasar currently work separately, there is no mutual cooperation with each other, so it is feared that by high competition level, in the future, the performance will decrease. Based on high competition

problems faced by the LPD and the Village Market, and based on the importance of the partnership strategy in reducing the competition pressure to improve the performance, so this research studies about, "How the Partnership Strategy of LPD and Village Market is which can result in synergy".

This research is descriptive qualitative, which begins with identifying the strategic factors affecting the sustainable development of LPD in Denpasar. Strategic factors include Internal and External Environment affecting the sustainable development of LPD. Internal and external environmental conditions faced by LPD of Denpasar then are analyzed with SWOT analysis. SWOT analysis is an analysis of the environmental variables enabling to create: strength, weakness, opportunity, and threats. Based on Internal Environmental Analysis, it will result in the Current and Future Internal Factor Analysis Summary (IFAS); then, based on the External Environment Analysis, it will result in the Current and Future External Factor Analysis Summary (EFAS). Based on IFAS and EFAS, the Strategic Position of LPD Denpasar can be determined, as the basis for Strategy Formulation of LPD Denpasar. Subsequent research is conducted by identifying the problems facing by Village Market in Denpasar. Based on strategy formulation of LPD in Denpasar city and the problems facing by market in Denpasar city, the right Partnership Strategy of LPD and Village Market in Denpasar can be formulated.

The Research goals

These research goals are: (1) identify strategic factors affecting the sustainable development of Village Credit Institutions (LPD) in Denpasar City; and (2) study and analyze the proper Partnership strategic model applied to the LPD empowerment in Village Market in Denpasar City as Village Owned Enterprises (BUMDes).

RESEARCH METHODOLOGY

Population & Samples

The research samples consist of 2 (two) groups, namely the Key Group Respondent and Village Market Respondent Group. Sampling is collected by purposive sampling with criteria that the Key Group Respondent of LPD in Denpasar City is the decision maker on LPD empowerment including LPD chairman in Denpasar City (practitioners), trustee of village city (PLPDK) and also competent academics (as well as the practitioners, who often conduct consultation to LPD, and research on LPD). Total sample is 45 people.

The population of village market respondent group is all market in Denpasar city. Sample is collected by census from 35 units' village market in Denpasar city. The Village Market

Respondent Group in Denpasar City is a Manager of village market who intended to know the problems faced by the traders in Village market.

The Research Variable

This research uses identified variables to analyze the management strategic formulation of BUMDes in Denpasar city which is based on the theory and enhanced based on some resources taken by questionnaires to considered to be competent ones, namely academics, LPD practitioners and supervisors. The research variables include the Intern and Extern Environment, as seen in "Table.1".

The Internal Environment consists of inflation level, monetary policy, government regulation support, social culture, technology facility development the number development of Micro Financial Institutions, competition, number of depositors and number of population.

The external environment consists of type of savings and credit including service quality, promotion support, serviced customers, credit interest rate, human resources quality. For detail, the variable and indicator drafts which are studied are as seen in Table 1.

Table. 1. The Research Variable and Indicator

No	The Research Variable	The Research Variable Indicator
1	Internal Environment	a) inflation level b) monetary policy c) government regulation support d) social culture e) technology facility development f) the number development of Micro Financial Institutions g) competition h) number of depositors i) number of population
2	External Environment	a) type of savings and credit b) service quality c) promotion support d) serviced customers e) credit interest rate f) human resources quality

The Data Analysis Technique

The data analysis technique used in this research is *SWOT* Analysis. The *SWOT* analysis is an analysis to a company or industry environment variable which can create: *Strength, Weakness, Opportunity, Threat*.

The SWOT analysis is conducted by some stages including:

1) Identify the strategic factors

Is the first stage in conducting SWOT analysis that is to identify strategic factors of LPD both from the internal and external environments.

2) Give weighting to the strategic factors

The weighting is given by assessor team based on the interest level from strategic factor effects to the company's success. The weighting value total for all strategic factor components is 1,00 for each internal and external environment.

3) Assess the strategic factors

After weighting, then, the assessor team gives assessment for each strategic indicator by using likert scale where the assessor team is asked to give value for each strategic factor indicator by choosing one of the 4 hierarchical scale, namely very good with value of 4; good with value of 3; less good with value of 2; very lack with value of 1

4) Determine the value/interval range

This value range is required to give the position of external environment to the opportunity and threat and also the internal environment to the strength and weakness.

To determine the interval, it is used a formulation as follow:

$$\text{Interval} = \frac{\text{Value range}}{\text{Class}}$$

$$\begin{aligned} \text{Interval} &= \frac{3}{4} \\ &= 0,75 \end{aligned}$$

While the *cut point* is :

$$\begin{aligned} \text{Cut Point} &= \frac{\text{Value total}}{\text{Class}} \\ &= \frac{4+3+2+1}{4} \\ &= \frac{10}{4} \\ &= 2,5 \end{aligned}$$

So, the obtained value above of 2,5 is opportunity and strength, while if the value are less than 2,5, so it is threat and weakness. From the calculation result of value interval, so it is obtained the result criteria as in Table 2.

Table. 2. The Analysis Result Criteria

Value	Value Range	Criteria	Internal	External
4	3,26 – 4,00	Very good	Strength	Opportunity
3	2,51 – 3,25	Good	Strength	Opportunity
2	1,76 – 2,50	Lack	Weakness	Threat
1	1,00 – 1,75	Very lack	Weakness	Threat

Based on the table 2 above, it can be known that in giving the criteria to external variable if the value ranges obtained are very good and good is an opportunity. While, if the values obtained are lack and very lack, so they are threats. The threat value range is 1,00 – 2,50. For internal environment, if the value ranges obtained are very good and good, so they are strength. The strength value range is 2,51 – 4,00. While if the values obtained are lack and very lack, so they are weakness. The weakness value range is 1,00 – 2,50.

5) Give position to the value obtained in Internal and External (IE) matrix diagram.

The result from each factor is inputted into internal and external matrix to know the position of LPD in Denpasar City. After being inputted, the proper Partnership Partner can be determined based on the current and future internal and external environment in LPD Denpasar City.

ANALYSIS AND DISCUSSION

The Respondents' Characteristics

The Key Respondent' Characteristics

The key respondent in this research is the decision makers on LPD in Denpasar city, which in this research are LPD Chairman in Denpasar City, LPD supervisor in this case is City LPD Supervisor in Denpasar City and also competent academics (as well as the practitioners, which often conduct consultation in LPD, and conduct research on LPD). The key respondents' characteristics for each one are seen in "Tabel 3".

Table. 3. The Key Respondents' Characteristics

No	Note	Amount (person)	Proportion (%)
1	Academics	9	20%
2	Practitioners	35	78%
3	Supervisor	1	2%
Total		45	100%

Based on "Table 3", it shows that from 45 people filling the questionnaires about strategic factor identification determining the LPD success in Denpasar city, there is 20% from academics, 78% from the LPD's practitioners and 2% from the Regent LPD supervisor (PLPDK).

The Village Market Respondents' Characteristics

The village market respondents in this research are all village market managers managing the village and Pekraman Village in Denpasar City, which are 35 units. The number of village market being surveyed per Sub-District in Denpasar City is displayed in "Table. 3".

Table. 4 The Village Market Respondents' Characteristics

No	Sub-District	Total
1	North Denpasar	5 units
2	East Denpasar	8 units
3	South Denpasar	15 units
4	West Denpasar	7 units
Total		35 Units

Source: Community & Village Government Empowerment Agency Denpasar City in 2013

Based on "Table. 4", it can be explained that the number of village market in Denpasar City is mainly in South Denpasar, that is 15 units; there are 8 units in East Denpasar; there are 7 units in West Denpasar, and there are 5 units in North Denpasar.

The Strategic Factor Identification of LPD's Success determination

The strategic factor identification determining the LPD's success in this research is conducted by distributing questionnaires to the Key Respondents, that are the competent parties including the academics, LPD practitioners (LPD chairman), Regent LPD Supervisor (PLPDK). Based on the distributed questionnaires, there are determination factors of LPD's performance in Denpasar city consisting of internal and external strategic factors, displayed in "Table 5".

Table. 5. The internal and external strategic factors of LPD' success determination in Denpasar City

No	Internal Strategic Factor	External Strategic Factor
1	The number of distributed credit	Bali's economic growth rate
2	The number of third party's funds (Savings and Deposits)	Loan interest rate
3	The LPD credit interest rate	Modal support from government
4	The credit distribution policy	Inflation
5	Service quality	Public attitude
6	Promotion support	Local society culture
7	Human resources quality	The amount development of SMEs
8	Human resources competency	The amount development of financial
9	Human resources loyalty	institutions
10	Organization Culture (LPD)	Regional government policy
11	Management commitment and competency	Information technology development
12	Administration and communication tool support	
13	Accounting control system	

“Table. 5” illustrates that there are 13 internal strategic factors and 10 external strategic factors which are all identified to determine the LOD’s success.

The internal strategic factors include: the number of distributed credit, the number of third party’s funds (Savings and Deposits), the LPD credit interest rate, the credit distribution policy, Service quality, promotion support, human resources quality, human resources competency, human resources loyalty, Organization Culture (LPD), management commitment and competency, administration and communication tool support, and accounting control system.

The external strategic factor includes Bali’s economic growth rate, loan interest rate, modal support from government, inflation, public attitude, local society culture, the amount development of SMEs, the amount development of financial institutions, regional government policy, information technology development. Then, based on the identified performance determination policy of Small and Craft Industry in Bali, the questionnaires are made on the factor interest level for present and future time, and also on how the condition of the two factors for present and future time.

The internal and external analysis of LPD in Denpasar City

The internal and external environment conditions of LPD in Denpasar City in this study are analyzed with SWOT analysis. SWOT analysis is an analysis to the environment condition which can create: *strength*, *weakness*, *opportunity*, and *threat*.

The Internal Analysis of LPD in Denpasar City

There are 13 internal strategic factors as relevant internal strategic factors in the strategy formulation of LPD in Denpasar City, as displayed in ‘Table. 5’.

If the internal strategic factors have positive effect, so they will be **strength** and if they have negative effect, so they will be **weakness** for LPB in Denpasar City both for present and future.

The internal strategic analysis of LPD in Denpasar city is conducted by comparing the respondent assessment on the importance of internal strategic variables for present and future. The competent respondents in this study are academics, LPD’s practitioners (LPD Chairman), Regency LPD Supervisor (PLPDK).

Table. 6 The Internal Factor Analysis Summary (IFAS) of LPD in Denpasar City
For Now and Future

No	Indikator variabel Internal	Weight (%)	Rating	weighted value	Weight (%)	Rating	weight value
1	2	3	4	5 = 3 x 4	6	7	8 = 6 x 7
1	the amount of distributed credit	0.08	3.07	0.24	0.08	3.46	0.28
2	the amount of fund from the third parties	0.08	3.22	0.26	0.08	3.41	0.27
3	the LPD credit interest rate	0.08	3.09	0.25	0.08	3.33	0.27
4	credit distribution policy	0.08	3.16	0.25	0.08	3.41	0.26
5	service quality	0.08	3.22	0.26	0.07	3.33	0.23
6	promotion support	0.08	3.17	0.25	0.08	3.35	0.26
7	human resources quality	0.07	3.12	0.23	0.08	3.48	0.27
8	human resources competency	0.07	3.16	0.24	0.08	3.28	0.25
9	human resources loyalty	0.07	3.17	0.24	0.08	3.41	0.27
10	organizational (LPD) culture	0.07	3.28	0.24	0.08	3.46	0.27
11	management commitment and competency	0.07	3.28	0.24	0.08	3.46	0.26
12	administration and communication tool support	0.07	3.27	0.24	0.07	3.38	0.24
13	accounting control system	0.08	3.16	0.25	0.08	3.30	0.25
Total		1.00	41.39	3.19	1.00	44.03	3.39

“Table 6” shows the *Internal Factor Analysis Summary (IFAS)* of LPD in Denpasar city at present and future. The average weighted value is categorized as **strength** if the value is $2,50 < N \leq 4,00$ and categorized **weakness** if the value is $1,00 < N \leq 2,50$.

Based on the IFAS average weighted value on Table 5, it shows that the Present strategic internal factor of LPD in Denpasar city is 3,19 meaning that it is more than 2,5 reflecting as LPD's strength. All internal strategic variables have values ranging from 0,23 until 0,26. The variable of human resources quality has the lowest value (0,23). This condition means that the variable has the lowest attention than other variables in improving the present LPD's performance. This is based on the reality that LPD's problem is on the owned human resources quality.

The future IFAS average weighted value for all internal strategic factors is 3,39 meaning that it is more than 2,5 reflecting as the strength. The future IFAS value of LPD in Denpasar city is bigger than the present IFAS value ($3,39 > 3,19$). This indicates that all internal strategic variables of LPD in Denpasar City have the potential / opportunity to change to be stronger in the future.

The External Environment Analysis of LPD in Denpasar city

There are 10 external strategic environment factors as relevant external strategic environment factors in the strategy formulation of LPD in Denpasar City, as displayed in 'Table. 5'. If the internal strategic environment factors have positive effect, so they will be **strength** and if they have negative effect, so they will be **weakness** for LPB in Denpasar City both for present and future. The internal environment analysis of LPD in Denpasar city is conducted by comparing the respondent assessment on the importance of external strategic variables for present and future. The competent respondents in this study are academics, LPD's practitioners (LPD Chairman), Regency LPD Supervisor (PLPDK).

Table. 7. The *External Factor Analysis Summary (EFAS)* of LPD in Denpasar City
For Present and Future

No	External Variable Indicators	present			future		
		weight (%)	Rating	weighted value	weight (%)	Rating	weighted value
1	2	3	4	5 = 3 x 4	6	7	8 = 6 x 7
1	Bali's economic growth rate	0.10	2.86	0.29	0.10	3.04	0.30
2	loan interest rate	0.10	3.01	0.30	0.10	3.19	0.32
3	modal support from government	0.10	2.77	0.28	0.10	2.86	0.29
4	inflation	0.10	2.57	0.26	0.10	2.70	0.27
5	public attitude	0.10	3.01	0.30	0.10	3.19	0.32
6	local community culture	0.10	2.98	0.30	0.10	3.19	0.32
7	the amount development of SMEs	0.10	2.82	0.28	0.10	3.18	0.32
8	the amount development of financial institution	0.10	2.83	0.28	0.10	2.94	0.29
9	government regulation policy	0.10	2.88	0.29	0.10	3.33	0.33
10	information technology development	0.10	3.11	0.31	0.10	3.42	0.34
Total		1.00	28.83	2.88	1.00	31.04	3.10

"Table 7" shows the *External Factor Analysis Summary (EFAS)* of LPD in Denpasar city at present and future. The average weighted value is categorized as **opportunity** if the value is $2,50 < N \leq 4,00$ and categorized **threats** if the value is $1,00 < N \leq 2,50$. Based on summary of table 4.5, it can be explained that the Present strategic external factor is 2,88 meaning that it has opportunity to develop because it is more than 2,5. The weighted value of the future external strategic factors is 3,10 and has bigger value than the present ones. This condition means that the future external strategic factors faced by LPD in Denpasar city have bigger opportunity than the present ones.

From the present and future external strategic factors faced by LPD in Denpasar city, it is seen that the inflation has the lowest opportunity for LPD to improve its performance. This is based on the reality, which the increasing inflation will decrease the public purchasing power. The society will give priority to its income to meet the consumption than conduct investment. This condition causes the existence of the funds from the third parties as the main funding of LPD and the credit request will also decrease.

The amount development of SMEs and financial institutions has the second lowest opportunity after the inflation to improve LPS's performance and gets the future increase. This condition means that the development of financial institutions both the micro and macro becomes the threat for LPD in conducting its functions as intermediation institution although the number of SMEs increases, but in the future, it has opportunity to increase along with the increase of LPD's professionalism as Macro Financial Institution.

The Position Determination and Strategic Formulation of LPD in Denpasar City

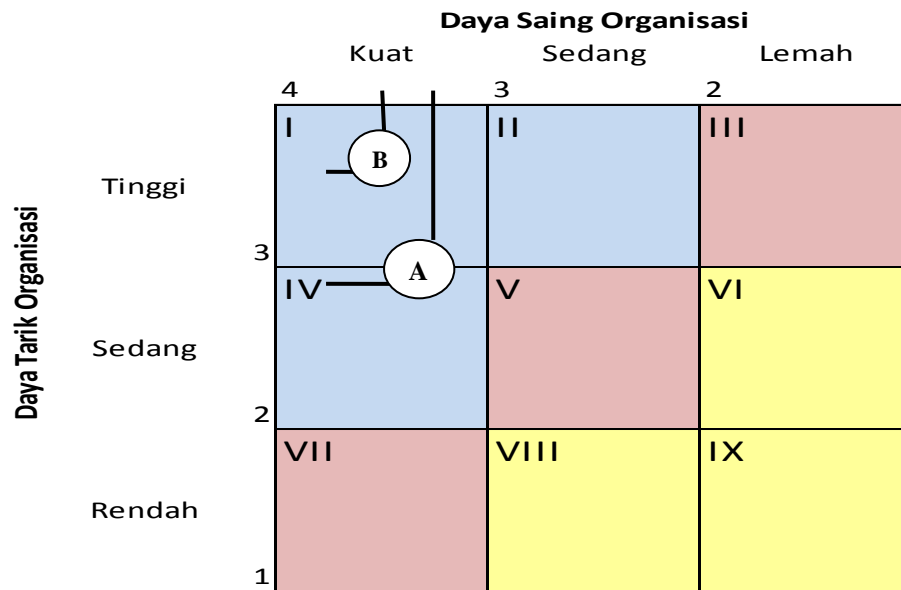
The Strategic Position of LPD in Denpasar City

The results of internal and external analysis (IFAS and EFAS) subsequently are inputted into the Internal External Matrix or often called as Matrix IE. In IE, there are nine-cell matrixes with the implementation of the strategy as follows:

- 1) *Growth and Build* Strategy are applied when the organization positions are in I, II, and IV Cell;
- 2) *Hold and Maintain* strategy are applied when the organization positions are in III, V, and VII Cell
- 3) *Harvest or Diverts* Strategy are applied when the organization positions are in VI, VIII, and IX Cell

Based on the analysis of the present internal and external previously described, it is known that the Present average weighted value of IFAs of LPD Denpasar City is 3.19 and the average weighted value of EFAS is 2.88 and its position in the IE Matrix Cells is on IV Cell (see Figure 4.4) which means that the currently, LPD Denpasar City has **a strong category competitiveness and attractiveness of the medium category**. This means that the actual LPD Denpasar City has an important role in society, as MFIs based on local wisdom, which its performance is needs to be improved.

Fig. 1 Present and Future LPD strategic position of Denpasar



Based on the Future internal and external analysis, it is known that the future average weighted value of IFAS LPD in Denpasar is 3.39 and the average weighted value of EFAS is 3.10, which means that in the future, LPD in Denpasar City has a high attraction and power strong competitiveness. Internal and external environment in the future are predicted to provide LPD a great opportunity for Denpasar City to improve its performance. In the future, LPD in Denpasar City is expected to be at point B, which is precisely in cell I.

The Strategy Formulation of LPD in Denpasar

The strategic position of LPD in Denpasar City is currently in the cell IV (strong attraction and medium competitiveness), then the strategy which should be applied so that later LPD in Denpasar City will be on the first cell (strong appeal and strong competitiveness) is a ***Growth and Build*** strategy (***Growing and Developing Strategy***) or also the same as ***Empowerment and Growth strategy*** (***Empowering and Growing Strategy***). LPD is developed and built more professional so that in the future, it will be able to reach stronger position, that is strong attractiveness and competitiveness. Based on this, in the future, LPD in Denpasar gives priority to build and develop a more professional organization to keep improving its performance.

According to David (2006), the strategic position on the cell I, II or IV are the most appropriate place to implement the intensive strategies (market penetration, market development and product development) or integration (integration backward, forward integration and horizontal integration).

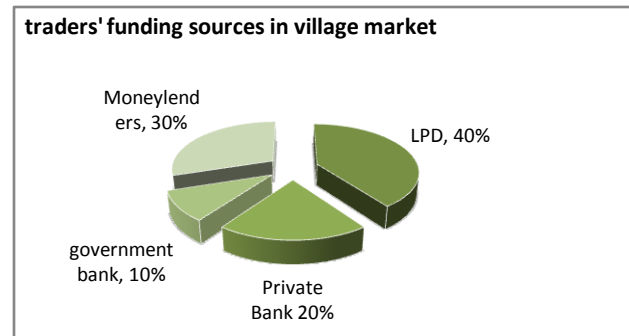
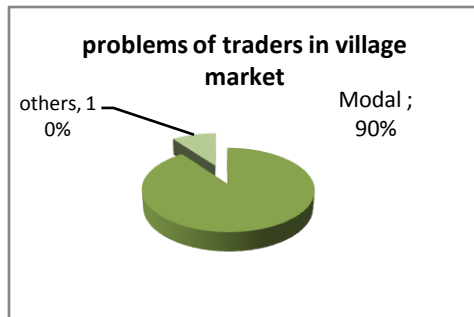
The right strategy to be applied by LPD in Denpasar City is **the intensive strategy**, that is a strategy that requires intensive effort to improve the competitive position of LPD in Denpasar, then, it can be described as follows.

- 1) **The market penetration strategy**, that is the strategy to look for a wider market for existing products by more intense marketing efforts. The market penetration strategy that can be done by LPD include the following.
 - (1) The increase in customers (loans and deposits) is not just by waiting for customers to come to the LPD, but more intensively by proactive system or picking up the ball to SMEs / Traders Village Market which are in the area concerned LPD region. The survey shows that SMEs are more aware of the existence of LPD's product from friends, rather than directly from LPD; this indicates that in the future, it is required a more intense socialization to the existence of the products offered by LPD.
 - (2) The increase in customers (fund credit of the third party) is by the collaboration with the traditional institution management in each row (Kelian Indigenous, Prajuru Indigenous) to provide fee for its performance. This can be done because the Kelian Indigenous and Prajuru Indigenous, are the people who most know about the customers' character coming from their traditional territory.
 - (3) Providing incentives for community members who use the LPD's services, either as a source of third party funds (Savings and Deposits), as well as debtors and others. Giving incentive can be done annually.
- 2) **The product development strategy**, that is the strategy of seeking revenue growth by improving existing products or new product development. The product development strategy that can be done by LPD can be done with the following work programs.
 - (1) LPD is not only as an intermediary institution, but also serves the public on payment of electricity and water services, which so far has been done by the LPD; in the future, it can be expanded further by providing services to the payment of taxes such as land and building tax (PBB).
 - (2) To finance the public financing in the purchase of household equipment, educational tools and vehicles, with regard to the minimum cash that must be held by LPD.
 - (3) The increase in third party funds which are relatively safe for long-term, LPD can develop Savings Time, whether it is Old Age Program, educational programs, ceremony programs and others. With Savings Time, LPD is expected to have a secure liquidity fund for long term fund which can be used for productive things.

- 3) **Integration**, which is a strategy to conduct business development to the upstream to get its input to the downstream to its input's utilization. This strategy is appropriate to establish a mutually beneficial partnership.

The Problems Faced by Village Market in Denpasar City

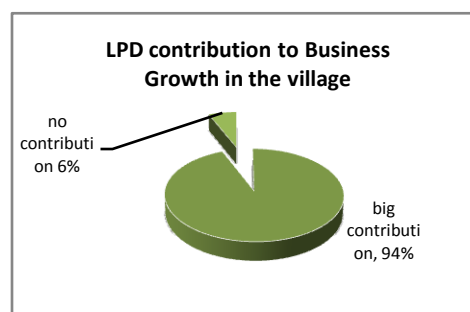
The faced problem analysis to make Village Market be able to compete with many Modern Markets currently can be explained by the following.



Based on the survey result, it shows that 90% of Traders in Village Market are having main problem in modal to develop their product business. Next, it states that the utilization of LPD's products is 60% which the 50% is in the form of saving. Related to the fund sources of Traders in Village Market, the respondents state that 40% is using LPD, 20% is using Private Bank, and 30% is using moneylenders. Although, all traders know the existence of PLD in their villages.

The problem if they use fund sources from LPD in the Village is that 100% of the respondents say that they are not local Pekraman Village people. Then, all Village Market managements will facilitate the service utilization of LPD to the traders in village markets to utilize LPD as the Saving and Business Funding Source Institution, with all met requirements.

The respondents who have used LPD's services/products to the modal, 89% of the respondents say that it is very useful and beneficial; and there is 86% saying that there is no difficulty in getting the credit. Related to the LPD's contribution to the business growth in the village, there is 94% of the respondents saying that LPD has real contribution, and there is only 6% of the respondents saying no contribution of LPD.



The Partnership Strategy of Village Owned Enterprises (LPD and Village Market)

LPD and Village Market as BUMDes as previously described are an institution in the Pekraman village. When it is considered, the present strategic position of LPD in Denpasar City is in the cell IV (strong appeal and medium competitiveness), by *the Growth and Build* strategy (Growing and Building Strategy) or *Empowerment and Growth* strategy (Empowering and Growing Strategy). The right strategy to be applied by LPD in Denpasar city is **the intensive strategy**, that is a strategy that requires intensive effort to improve the competitive position of LPD. One appropriate strategy for LPD is Integration Strategy. The integration strategy is appropriate for LPD by conducting partnership with the Village Market or by doing **Integration and Intensive Partnership Strategy**. Ellram and Hendrick (1995) reveal **the Partnership** is a relationship between two companies including a commitment over a long period of time, sharing of information, such as the sharing of risks and rewards of the relationship. Government Regulation No. 44 of 1997 about **the Partnership** reveals that the Partnership is a pattern of relationships (cooperation) between two or more parties, based on equality, openness and mutual benefit (giving benefit). Furthermore, it is also stated that **the partnership elements** include: (1) the relationship (cooperation) between two or more parties, (2) the existence of equality between the parties, (3) the transparency or trust (trust relationship) between the parties, (4) the mutual relationship with mutual benefit or giving benefit

The partnership strategies in LPD and Village Market as BUMDes in Denpasar include the following.

- a. **Upstream Integration Partnership** to obtain **supplies** of the Third Party Funds to the Traders in Market Village. This condition is appropriate with regard to the survey results support to the Village Market, that there is only 60% of the Village Market's Traders who utilize LPD's product in the form of savings.
- b. **Downstream Integration Partnership**, where traders in the Village Market as **Consumers of** LPD's Credit distribution. This condition is appropriate with regard to the results of the survey to the Village Market, that the main problem of traders in the village markets is a matter of Capital.

The LPD and Village Market Partnership as BUMDes are expected to generate synergies, which are expected to increase the contribution of the Rural Development. LPD is a Financial Institution and the Village Market is the Real Asset Institution of Pekraman village. Ellram and Hendrick (1995) define partnership as the relationship between two companies including a commitment over a long period of time, sharing of information, such as the sharing of risks and rewards of the relationship.

Intensive Partnership Strategy with integration as LPD and village market's strategy as BUMDes Village, is supported by a previous study conducted by Kerti Yasa (2011), who conducts research on Rural Bank industry in Bali. Kerti Yasa (2011) finds that the intensive Implementation Partnership Strategy can improve the company's performance; The Implementation Partnership Strategy is across the Rural Bank industry in Bali with Strategic Partnership to the customers. In this study, LPD is a Micro Finance Institution and Market Village's Traders are the Clients.

The Intensive Partnership Strategy is collaboration between the supplier and retailer with the company. The Intensive Partnership strategies found in this study also receives support from previous researchers such as: Whiteoak (1993) who finds that the solution of the conflict between suppliers and retailers is by inviting parties to work together not merely share information but also make efforts to understand the motivations of potential and operation of each party. By understanding the motivation and operation of each parties, so the benefit of this cooperation form will be achieved. Zineldin (1995) indicates that the nature and characteristics of the cooperation between banks and their clients are: the atmosphere of dependency, co-operation, and agreements, economy, technical and legal / political and surrounding social environment of two participant in this cooperation and social exchange between banks and client companies. These attribute are consistent with the concept of cooperation, namely the existence of at least two organizations that interact, their interdependence, the exchange of information. Banks conducts cooperation with their client company to improve the performance. These Zinerldin's (1998) findings reinforce Zineldin research results (1995). Oriented organization "co-operative", should integrate its relation with a wider range from internal and external markets. Hale (1998) shows that the cooperating parties will benefit from the cooperation. So, the cooperation strategy is important to be considered as a strategy solution to improve the company's performance.

CONCLUSION

Strategic Factors affecting sustainable development of LPD in Denpasar City is as follows: (1) The Internal strategic factors affecting the sustainable development of LPD in Denpasar include: Inflation, Monetary Policy, government regulation support, public culture, technological facility development, the amount development of Microfinance Institutions, Competition, Number of savers, as well as the total population. (2) The Extern strategic factors affecting the sustainable development of LPD in Denpasar City include: type of savings and loans including: quality of service, promotion Support, served customer, Credit interest rate, quality of Human Resources.

The Problems faced by Rural Market Development in Denpasar is there is 90% of the traders in the Village Market facing major problems in the Capital to develop the business products, then only 40% of the traders is using LPD funding, and the rest is using private banks financing, Bank Government and lenders. Subsequently, the whole village market manager will facilitate the use of LPD Services to the traders in village market to utilize the LPD as Saving Institutions and Business Funding Source with the met requirements

The present strategic position of LPD in Denpasar, which is on a strong attraction and medium competitiveness. The Proper strategy is the *Growth and Build* strategy (Growing and Developing Strategy) or also the same as *Empowerment and Growth* strategy (Empowering and Growing strategy). The strategy includes intensive strategy (market penetration, market development and product development) or integration as the proper strategy applied for LPD's empowerment in Denpasar.

The Partnership strategies model applied by LPD and in Village Market as village-owned enterprises in Denpasar city is the Integration Intensive Partnership Strategy including the following: (1) Upstream integration partnership to obtain the supplies of the Third Party Funds from the traders in Traders Village. This condition is appropriate with regard to the survey results support the Village Market, that there is only 60% of the traders in village market utilizing LPD product in the form of savings. (2) the Downstream Integration Partnership, where traders in the Village Market as Consumer of LPD's Credit distribution. This condition is appropriate with regard to the results of a survey on the Village Market, that the main problem of traders in the village is a matter of Capital Markets.

The City Government of Denpasar by the Village Community Empowerment Board, needs to consider the Mayor Regulations (Perwali) about BUMDes to become legal regulations for LPD and village markets in Denpasar, one of which regulates the contribution the rural development of Pekraman Village and the Village, as well as arranges partnerships between LPD and The village market with mutual benefits.

LIMITATIONS & SCOPE FOR FURTHER RESEARCH

This study has limitation that it only examines LPD partnership strategies with the Village Market in Denpasar City based on qualitative descriptive analysis of key variables that determine the performance of LPD Denpasar City for present and the future. For further research, it is recommended to assess the key internal and external variables affecting LPD performance quantitatively in Denpasar City, so it can be determined quantitatively the contribution of each of these key variables on the LPD's performance in Denpasar.

REFERENCES

- David, Fred R. (2006). *Strategic Management, Concepts and Cases*. Pearson Prentice Hall.
- Ellram, L.M. and Hendrick, T.E. (1995). Partnering Caharacteristics: a Dyadic Perspective. *Journal of Business Logistics*. Vol. 16 No. 1. pp. 41-64.
- Hale Mathew. (1998). Promoting a Culture of Learning Through Education Business Partnership in Tower Hamlets: a Case Study of the Bankers Trust Initiative with Morpeth School. *Education + Training*, Vol. 40, No. 9, pp. 384-389.
- Kerti Yasa, Ni Nyoman. (2010), Peran Partnership Strategy Untuk Meningkatkan Kinerja Perusahaan (Studi Pada Bank Perkreditan Rakyat di Provinsi Bali), *Ekuitas Vol. 14 No. 3 September 2010: 305 – 329*
- Kim S. W. (2006). Effect of Supply Chain Management Practices, Integration and Competition Capability on Performance. *Supply Chain Management: An International Journal*. Vol. 11. No.3. pp. 241-248.
- Lee C. W., Kwon Ik-Whan G. and Severence Dennis. (2007). Relationship Between Supply Chain Performance and Degree of Linkage Among Supplier, Internal Integration, and Customer. *Supply Chain Management: An International Journal*. Vol. 12. No. 6. pp. 444- 452.
- Peraturan Daerah Nomor 3, Tahun 2007, Perubahan Atas Peraturan Daerah Provinsi Bali Nomor 8, Tahun 2002 tentang Lembaga Perkreditan Desa (LPD
- Peraturan Daerah Provinsi Bali nomor 2 tahun 1988 yang telah diperbaharui dengan Perda Nomor 8 tahun 2002 tentang Lapangan usaha Lembaga Perkreditan Desa
- Peraturan Mentri Dalam Negeri Nomor. 39 Tahun 2010 tentang Badan Usaha Milik Desa
- Peraturan Pemerintah No. 44 Tahun 1997 tentang Kemitraan.
- Undang Uundang Nomor 32 Tahun 2004 tentang Pemerintahan Daerah
- Webster, F.E. 1992. The Changing Role of Marketing in the Corporation. *Journal of Marketing*. Vol. 56. pp. 1-17.
- Zineldin, M. (1995). Bank-Company Interaction and Relationship: Some Empirical Evidence. *International Journal of Bank Marketing*. Vol. 13. No. 2. pp. 30-40.
- Wiagustini, Ni Luh Putu, Wiksuana, I G B., Saskara, IA., Sintaasih, Desak Ketut., (2014) Model Pemberdayaan Lembaga Perkreditan Desa Sebagai Sumber pendanaan UMKM di Kabupaten Gianyar, *Jurnal Manajemen, Strategi Bisnis dan Kewirausahaan, Vol 8 No 1*