CHAPTER II
LITERATURE REVIEW

2.1 SWOT Definitions

According to Kotler and Armstrong (2008), SWOT analysis is an overall evaluation of the strengths, weaknesses, opportunities and threats that the company has. The purpose of this analysis is to combine the four elements, by putting together the strength of the company with the opportunities that exist, so that from these strengths and opportunities can reduce weaknesses and overcome the upcoming threats.

Every company must have its own strengths and weaknesses in the functional area of the business. Likewise with the opportunities and threats that will be faced by companies to survive in business competition. Strengths and weaknesses from the internal side when combined with opportunities and threats from the external side form the basis for setting goals and strategies. Setting goals and strategies is obtained by utilizing strengths and opportunities, as well as overcoming weaknesses and threats (David, 2008).

According to Rangkuti, the definition of SWOT analysis is an effort carried out based on logic that can maximize strength and opportunity, and at the same time can minimize weaknesses and threats. This analysis aims to identify various factors systematically to formulate the company's strategy.

According to Pearce and Robinson, the understanding of SWOT analysis is part of the company's strategic management process that aims to identify the company's main strengths and weaknesses. These weaknesses and main strengths are compared with opportunities and external threats as a basis for generating various alternative strategies.

According to David (2008), the SWOT explanation is as follows

a. Strength

Strength is the resources, skills or other advantages possessed by the company that relate to competitors and market needs that can be served. The strength possessed by the company but not owned by competitors can provide positive benefits and competitive advantages for the company's position in the market

b. Weakness

Limitations or shortcomings in the resources, skills and capabilities of a company that can directly or indirectly hamper company performance. These limitations can be in the form of facilities, financial resources, human resources, management capabilities and marketing skills. This weakness can make companies lose competitiveness with other companies, because they do not have what other companies have.

c. Opportunity

Opportunities are important situations that benefit the company. Opportunities provide benefits both in quality and quantity for the progress and smooth performance of the company such as changing technology, new market share, increasing relationships between companies and buyers or suppliers.

d. Threat

Threats are important situations that are not profitable or detrimental to the company. Contrary to opportunities, threats actually have a negative impact, which hinders the smooth performance of the company, such as new regulations from the government.

2.2 Function of SWOT analysis

According to Ferrel and Harline (2005), the SWOT analysis serves to provide information based on analysis of the situation and separates it in internal issues (strengths and weaknesses) and external issues (opportunities and threats). Through SWOT analysis, it will provide an explanation of whether the information indicates something that can help the company achieve its objectives or provide an indication that there are obstacles that must be faced or reduced to meet the desired income.

2.3 SWOT Matrix

According to Rangkuti (2006), SWOT matrix can provide a clear picture of how the opportunities and external threats faced by the company can be adjusted to the strengths and weaknesses of the company. SWOT matrix is a table consisting of elaboration of factors of strength, weakness, opportunity and threat. This matrix can produce four possible alternative strategic sequences.

SWOT matrix can be seen in Table 1 as follows:

Table 1. *SWOT Matrix*

Internal / External	Strength	Weakness
Opportunity	SO Strategy Creating strategies that use strength to take advantage of opportunities	WO Strategy Creating strategies that minimize weaknesses to take advantage of opportunities
Threat	ST Strategy Creating strategies that overcome threats by utilizing strength.	WT Strategy Creating strategies that minimize weaknesses and avoid threats.

Source: Albert Humphrey (2005)

The following is a description of the SWOT matrix based on the table above:

a. SO Strategy (*Strength and Opportunity*)

This strategy is based on the results of the company's thinking, namely by utilizing all the strengths or strengths possessed by the company and the maximum opportunities in order to improve the company's performance.

b. ST Strategy (*Strength and Threat*)

Strategies in overcoming threats faced by companies by utilizing the strengths or strengths contained in the company.

c. WO Strategy (*Weakness and Opportuniy*)

This strategy is applied to reduce or even correct weaknesses in the company by utilizing opportunities that can benefit companies in an effort to improve company performance.

d. WT Strategy (*Weakness and Threat*)

This strategy is a defensive activity by trying to reduce or even correct weaknesses that exist in the company and avoid threats faced by the company.

2.4 Scope of SWOT Analysis

According to Hitt et al. (2003), within SWOT analysis is divided into two scope of analysis, called the analysis of the internal environment and the analysis of the company's external environment. Internal environmental analysis discusses the strengths and weaknesses of the company, while the external environmental analysis discusses the company's opportunities in expanding market share and threats faced by the company.

2.4.1 Internal Environment Analysis

Internal Environmental Analysis The analysis of the company's external environment consists of three factors, where these factors form the basis of the company's ability to compete in the industry. The three factors are as follows:

a. Resources

Resources or resources are assets that are owned by the company or which are derived from the ability of the company itself. Resources consist of 2 types:

1. *Tangible Resources* is a type of resource owned by a company that can be seen and calculated. Tangible resources include financial resources, organizational resources, physical resources, technological resources

a) *Financial resources* are the company's ability to manage the company's financial resources through the company's lending capacity to manage internal funds and achieve a sound corporate financial system.

b) *Organizational resources* are the company's ability to manage the organization of the company through the formulation of the company's formal report structure and the structure of planning, control and corporate coordination systems to achieve good organizational cooperation within the company.

c) *Physical resources* is the company's ability to manage physical resources such as the location of the company, equipment and equipment that can support the smooth running of the company.

d) *Technological resources* is the ability of companies to manage technology resources owned, such as patents, trademarks, copyrights and company secrets that can distinguish companies from competitors.

2. *Intangible Resources,* is a type of resource owned by a company that cannot be seen and calculated. This type of resource is a company-specific asset that is embedded in the company's history and accumulated from time to time. Company history that has good experience in creating satisfaction for consumers that will increase added value for the company.
3. *Intangible resources* includes *human resources, innovation resources* and *reputational resources*.
   a) *Human resources* is the most important resource owned by the company and can determine the quality of the company itself. These resources include knowledge, trust, managerial abilities and organizational routines. There needs to be adequate human resources and reliable performance in order to help companies achieve their goals. According to Heidjrachman and Suad Husnan (2002), improving employee performance and productivity can be done through incentives. The incentive in question is the provision of different wages based on differences in the achievements or work results of each employee. Providing incentives aims to maintain employees who have good performance, ensure fairness, respect desired behavior, and control costs (reduce turnover).
   b) *Innovation resources* is a resource that comes from the company's ability to create the products and services offered. These capabilities include ideas, scientific abilities and the ability to innovate or design new products.

c) *Reputation resources* is the ability of the company to create a reputation or image in the market both in the eyes of consumers, suppliers, stakeholders and competitors. A good corporate reputation can build mutually beneficial relationships.

b. *Capabilities*

Capabilities is the company's ability to manage the resources they have to achieve their goals. The value of a company is not only obtained from the wealth that is owned, but also through knowledge, intellectual assets and competencies where all these things come from humans (Ireland et al., 2003).

c. *Core Competencies*

Core competencies is a combination of resources and capabilities that are a source of the company's ability to compete with its competitors. Not all resources and capabilities owned by the company are core competencies, only resources and capabilities have superior value than competitors that can be the company's core competencies (Ireland et al., 2003).

2.4.2 External Environment Analysis

External environment analysis includes four components, namely scanning, monitoring, forecasting and assessing. The four components function to explain the opportunities that can be taken by the company and threats that might be faced by the company.

1. *Scanning*

Scanning is identification of the initial signs that arise in the environment and trends that exist in the company's external environment. Through scanning, companies can keep abreast of market developments and absorb new things from the outside environment so they can determine the products or services offered in accordance with market developments

2. *Monitoring*

   Monitoring is detecting and observing changes in trends or developments in society. Observation can be used by companies in determining the direction and goals of companies and environmental trends.

3. *Forecasting*

   Forecasting is forecasting market conditions and conditions. This forecasting is used by companies to anticipate changes in the environment and trends in the market.

4. *Assessing*

   Assessing is to determine the right time to design and implement the company's strategy. The purpose of this assessment is to clearly understand the company's capabilities and take appropriate steps to achieve the company's goals in the face of environmental changes.