

SWOT ANALYSIS: THE FIRST STEP IN CREATING A GREAT STRATEGY IN ISLAMIC FINANCIAL INSTITUTIONS

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ABSTRACT

SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis is a strategic tool that is often used to evaluate an organization's position as a whole. By analyzing internal strengths and weaknesses, as well as external opportunities and threats, organizations can understand their strategic conditions amidst business dynamics. This study aims to examine the role of SWOT analysis as an initial step in effective business strategy planning. The results show that SWOT analysis helps organizations identify competitive advantages that can be utilized to achieve long-term goals. In addition, internal weaknesses found through this analysis can be the basis for making improvements and developments. External opportunities, such as technological advances or new market trends, can be utilized for innovation, while threats, such as competition or regulatory changes, can be anticipated through careful planning. However, SWOT analysis has limitations. This tool only provides an overview and does not cover specific priorities or implementation steps. Therefore, integration with other analysis tools, such as PESTEL or Porter's Five Forces, is needed to support more in-depth decision making. By combining SWOT with other analysis methods, organizations can design strategies that are adaptive, responsive, and relevant. This study emphasizes that SWOT is an important initial step in creating a superior and sustainable business strategy.

Keywords: *SWOT Analysis, Strategy, Islamic Economics, Islamic Financial Institutions*

I. INTRODUCTION

In a competitive business world, every organization needs a mature strategy to survive and thrive. One of the tools often used in the strategic planning process is the SWOT analysis. SWOT, which stands for Strengths, Weaknesses, Opportunities, and Threats, is a simple yet highly effective method for evaluating an organization's overall position. By conducting a SWOT analysis, an organization can understand the internal and external situations that affect its success.

SWOT analysis is an important first step in creating a great strategy. By identifying strengths, organizations can maximize what they are good at, while weaknesses can be addressed through internal development. On the other hand, external opportunities can be utilized for growth, while threats can be minimized or avoided through preventive actions. Thus, SWOT helps organizations design strategies that are relevant and responsive to changes in the business environment.

Not only large companies, SWOT analysis is also relevant for small organizations, startups, and non-profit organizations. This tool is flexible and can be adjusted to the needs of the organization, both for short-term and long-term planning. In the era of globalization and digitalization, SWOT analysis is becoming increasingly important because companies face complex and dynamic challenges. A deep understanding of internal and external factors is key to maintaining competitiveness.

However, it is important to remember that SWOT analysis is not simply a matter of listing these factors. The process must be based on valid and accurate data to produce meaningful insights. SWOT only provides an initial map, so more advanced analytical tools are needed to support more detailed strategy implementation. By combining SWOT with other approaches, organizations can make more informed and results-oriented decisions. Through this article, the discussion will focus on the basic concept of SWOT analysis, the steps to do it, the benefits obtained, and some criticisms of its use. With a deep understanding, it is hoped that readers can apply SWOT to support better strategic planning in their organizations.

II. LITERATURE REVIEW

The SWOT analysis, an acronym for Strengths, Weaknesses, Opportunities, and Threats, is a strategic tool widely employed to evaluate an organization's overall position. Developed by Albert Humphrey during the 1960s, SWOT analysis serves as a foundational approach in strategic planning. By examining both internal and external factors, it enables organizations to assess their competitive landscape effectively. The following are the components of SWOT Analysis

1. **Strengths:** These refer to internal attributes that offer competitive advantages, such as robust financial resources, skilled personnel, advanced technology, or brand reputation. Recognizing strengths allows organizations to capitalize on them to achieve strategic goals.
2. **Weaknesses:** Internal limitations, such as resource deficiencies, outdated systems, or skill gaps, fall under this category. Addressing these weaknesses is crucial to improving organizational performance.
3. **Opportunities:** External factors like market growth, technological advancements, or favorable regulatory changes create avenues for innovation and expansion.
4. **Threats:** These are external challenges that could hinder an organization, such as economic downturns, intense competition, or regulatory changes. Understanding threats enables proactive risk mitigation strategies.

The SWOT framework is celebrated for its simplicity, flexibility, and adaptability. Applicable across various sectors, from corporations to non-profits, it promotes team collaboration, critical thinking, and resource allocation based on priority. It also serves as a periodic evaluative tool to track organizational progress. Despite its utility, SWOT has limitations. It offers only a broad overview and lacks specific action plans or prioritization mechanisms. Therefore, integrating it with tools like PESTEL (Political, Economic, Social, Technological, Environmental, and Legal) analysis or Porter's Five Forces can yield more in-depth strategic insights. In the era of globalization and digitalization, organizations encounter dynamic market conditions and evolving challenges. SWOT analysis helps businesses stay competitive by continually assessing internal capabilities and external opportunities and threats.

III. METHODOLOGY

This research is included in the type of library research that uses various literature as the main source. The literature used includes books, scientific journals, official reports, and digital documents related to the theme "SWOT Analysis: The First Step in Creating a Great Strategy." This approach was chosen to explore the theory and practice of SWOT analysis from various perspectives. The goal is to gain an in-depth understanding of the concept, application, and relevance in the context of strategic management.

The data collection method in this study was carried out through a literature review. Data were taken from various sources, such as strategic management books, scientific journal articles, research reports, and relevant case studies. In addition, digital data sources such as academic websites and modern strategic management standards were also used. These sources were selected based on their level of credibility and relevance to the discussion of the research theme. The instruments used in this study are as follows:

- a. Notebook: Used to note down main ideas, important quotes, and relevant points from the literature studied.
- b. Writing Equipment: Pens, pencils, and paper are used to support manual recording during the research process.
- c. Laptop or Computer: Functions as the main tool for accessing digital literature, processing data, and compiling research reports systematically.

After the data is collected, the processing process is carried out using a descriptive analysis approach. Data is classified based on certain themes, such as strengths, weaknesses, opportunities, and threats, which are the main components of a SWOT analysis. Furthermore, the information is analyzed in depth to illustrate the relevance and application of SWOT analysis in an organizational context. This technique is used to develop a comprehensive understanding of the importance of SWOT analysis as a strategic tool in business planning. This study also aims to produce new insights that can be applied in a practical context.

IV. RESULTS AND ANALYSIS

SWOT analysis is a strategic planning method used to evaluate four key aspects of an organization or project: Strengths, Weaknesses, Opportunities, and

Threats. This method helps organizations understand the internal and external conditions that affect the achievement of goals. This analysis is often used in strategic decision making, whether for business, projects, or individual development. By analyzing these four components, organizations can design more effective and relevant strategies.

Internally, strengths refer to factors that provide a competitive advantage, such as resources, technology, or a good brand reputation. In contrast, weaknesses are internal aspects that can be obstacles to achieving goals, such as lack of skills, budget constraints, or inadequate infrastructure. Both of these aspects help organizations identify potential and areas for improvement in their operations.

On the external side, opportunities include market conditions or trends that can be exploited for growth, such as technological developments, supportive government policies, or increasing market demand. Threats, on the other hand, include factors that can harm or hinder an organization, such as intense competition, regulatory changes, or unstable economic conditions. By understanding these external aspects, organizations can prepare themselves to face challenges and optimize opportunities.

The main advantage of SWOT analysis is its simplicity, which makes it easy to apply to a variety of organizations, from small businesses to large corporations. The process encourages teams to discuss, think critically, and view situations from multiple perspectives. It can also be used to identify priorities, allocate resources, and design targeted strategies based on the available data.

Overall, SWOT analysis is a very useful tool for understanding an organization's position within a given market or environmental context. By conducting this analysis regularly, an organization can continually adapt to change, improve efficiency, and achieve both short-term and long-term goals. This makes SWOT analysis an essential element of modern strategic management.

SWOT analysis provides an overview of the internal and external conditions of Islamic financial institutions, but SWOT alone is not enough to produce detailed and in-depth strategies. Therefore, it is important to integrate SWOT analysis with other analytical tools to strengthen the accuracy of the results and the relevance of the resulting strategy. The following are approaches that can be used to integrate SWOT into the strategy of Islamic financial institutions:

A PESTEL (Political, Economic, Social, Technological, Environmental, and Legal) analysis can complement SWOT with a deeper focus on external factors that impact the operations of Islamic financial institutions: 1) Political: Government

regulations and policies related to Islamic economics, such as support for halal financing and Islamic finance-based taxes. 2) Economic: Global economic conditions, currency stability, and market growth for ethically based financial products. 3) Social: Increasing public awareness of value-based finance, such as the green investment trend. 4) Technological (Technology): Developments in financial technology (fintech) that can be adopted by Islamic financial institutions to increase efficiency and product innovation. 5) Environmental: Opportunities in financing sustainability projects, such as renewable energy and green infrastructure. 6) Legal: Compliance with Sharia law and cross-border regulations that are often complex and diverse. 7) The integration of PESTEL into SWOT enables Islamic financial institutions to understand opportunities and threats in more detail, especially in the context of dynamic changes in the external environment.

The strategy designed through SWOT must be in line with Sharia principles in order to maintain public trust and the competitive advantage of Islamic financial institutions. For example: Implementation of Fairness and Transparency Values: The results of the SWOT analysis related to strengths must support the provision of fair and transparent financial services in accordance with Sharia principles. Shariah-Based Innovation: Product innovations identified as opportunities must go through a Shariah supervisory board approval process to ensure their suitability. Sharia Risk Mitigation: Threats such as potential violations of Sharia law or lack of public understanding of Islamic financial products can be anticipated through strict Sharia education and internal audits.

Porter's Five Forces can be used to evaluate competitive factors in the Islamic finance industry. By integrating these into the SWOT, Islamic financial institutions can identify their strategic position more accurately: Competitive Rivalry: Analysis of threats from conventional financial institutions offering similar ethical-based products. Threat of Substitutes: Evaluation of non-Sharia financial products that may be more attractive to consumers due to their price or flexibility. Bargaining Power of Customers: Identify how customers can influence the price or demand of Islamic financial products. Bargaining Power of Suppliers: The impact of Islamic financial institutions' dependence on certain service providers, such as technology providers or investment partners. Threat of New Entrants: The emergence of Sharia-based fintech startups that could change the competitive landscape.

Islamic financial institutions have a social responsibility to promote

sustainable finance in line with the Sustainable Development Goals. A SWOT analysis can help Islamic financial institutions identify opportunities in green financing, productive waqf, or technology-based zakat. This integration enables Islamic financial institutions to: Using their strength in offering ethical value-based products to support environmentally friendly projects. Addressing weaknesses such as lack of sustainable product diversification through innovation and collaboration with external parties. Identifying threats such as the lack of regulations supporting sustainable finance in some regions, as well as opportunities from pro-environmental government policies.

Sustainable finance, which aims to integrate economic, social and environmental aspects into financial strategies, has become a global focus. In the context of Islamic financial institutions, sustainable finance is particularly relevant as it is in line with Shariah principles that emphasize fairness, transparency and sustainability. SWOT analysis plays a vital role in supporting Islamic financial institutions in achieving these goals by providing strategic guidance based on an evaluation of strengths, weaknesses, opportunities and threats.

Islamic financial institutions have unique strengths that support the implementation of sustainable finance strategies: Sharia Principles as an Ethical Basis: The Islamic financial system, free from *riba*, *gharar* and *maisir*, provides a strong ethical basis for supporting sustainable projects, such as renewable energy financing or waqf-based social investments. Public Trust: Public trust in the transparency and integrity of Islamic financial institutions provides an advantage in attracting value-based investments. Inclusive Products: Schemes such as *mudaraba* and *musharaka* enable more inclusive participation in economic development, while supporting the reduction of social disparities.

Despite its strengths, there are weaknesses that need to be addressed to support sustainability: Lack of Diversification of Sustainability Products: Many Islamic financial institutions are still focused on traditional financing products, such as *murabahah*, so opportunities in the sustainability sector have not been fully utilized. Technology Limitations: The lack of adoption of modern technology, such as Sharia-based fintech, limits the efficiency and innovation of sustainable products. Limited Human Resource Understanding: Not all workforce in Islamic financial institutions have combined expertise in Sharia principles and modern financial strategies focused on sustainability.

The global market provides huge opportunities for Islamic financial institutions to develop products that support sustainability: Global Demand for

Green Finance: Many countries and companies are seeking funding for sustainability projects, such as renewable energy, which can be facilitated through Sharia-compliant financing schemes. **Collaboration with Fintech:** Financial technology can be used to create innovative services, such as waqf or zakat-based green investment platforms, which facilitate community participation in sustainable finance. **Government Support and Global Policies:** Many governments, especially in Muslim countries, have begun to support Islamic finance initiatives through fiscal policies, regulations, and incentives for green investments.

External threats also need to be anticipated so that Islamic financial institutions can contribute more significantly to sustainability: **Competition from Conventional Financial Institutions:** Conventional banks are also starting to adopt the concept of sustainable finance, even offering competitive green products. **Public Perception:** In some regions, there is a perception that Islamic finance is only for the Muslim community, thus limiting global market acceptance. **Regulatory Uncertainty:** Regulatory differences between countries can hinder the development and implementation of cross-border sustainability strategies.

Based on the SWOT analysis, the following are strategies that can be implemented by Islamic financial institutions to support sustainable finance: **Optimizing Strengths:** Islamic financial institutions must strengthen their Shariah-based strengths, for example by promoting products such as green sukuk, which are specifically designed to finance environmentally friendly projects. **Addressing Weaknesses:** Diversification of sustainable financial products, such as productive waqf financing and investment zakat, can be a solution to increase market appeal. In addition, HR training related to sustainable finance needs to be prioritized. **Leveraging Opportunities:** By collaborating with fintech, Islamic financial institutions can expand their service reach to the global market, especially in the green financing sector. **Addressing Threats:** Public education and promotion of the universal value of Islamic finance can help overcome the perception that Islamic finance is limited to certain communities. In addition, advocacy efforts to governments for regulatory harmonization can reduce cross-border barriers.

This SWOT analysis is used to examine the strengths, weaknesses, opportunities, and threats that exist. That is why it is called a SWOT analysis, this name is taken from the abbreviation of each aspect to be studied; Strengths, Weaknesses, Opportunities, and Threats. This analysis can be used for anything, both individuals and organizations.

This SWOT analysis technique was created by Albert Humphrey around

1960 to 1970 who was leading a Stanford University research project at that time. This analysis helps us to understand the strengths, weaknesses, opportunities, and threats of an object presented in an organized list. With this list, you can also create a strong strategy and prioritize the work that needs to be done to develop the object of analysis. As mentioned earlier, the object of this analysis can be an individual or a body. SWOT analysis is the most frequently used analysis technique in organizations or companies because it is easy for anyone to understand. Knowing Here are some of its main benefits:

1. Identify Strengths and Weaknesses

Helping organizations or individuals understand internal strengths that can be utilized to achieve goals. Revealing internal weaknesses that need to be improved or minimized.

2. Exploring Opportunities

Identify external opportunities that can be exploited for business development or opportunities Assist in finding new markets, relevant trends, or strategic collaborations.

3. Anticipate Threats

Helping organizations identify external threats that may hinder the achievement of objectives. Increasing readiness to face future risks and challenges.

4. Assisting in Strategic Planning

Provides guidance for designing relevant strategies based on internal and external condition analysis. Facilitates decision-making process by understanding key priorities.

5. Improving Organizational Focus

Helping teams or individuals focus on what matters, such as optimizing strengths or addressing weaknesses. Reducing wasted time and resources on things that don't add value.

6. Assisting in Performance Evaluation

Useful in evaluating the success of the implemented strategy by comparing the results to the initial SWOT analysis. Can be used continuously for continuous improvement.

7. Application Flexibility

Can be used in various fields, from business, education, career, to personal planning.

V. CONCLUSION AND RECOMMENDATION

SWOT analysis is a very effective strategic tool in helping Islamic financial institutions understand their position in a dynamic business environment. By evaluating strengths, weaknesses, opportunities, and threats, Islamic financial institutions can design relevant, sustainable, and Shariah-based strategies to face challenges and take advantage of opportunities in the global market. The strengths of Islamic financial institutions, such as Sharia principles emphasizing fairness and transparency, public trust, and a solid governance structure, provide a solid foundation for competing in the market. However, they also face weaknesses, such as limited product diversification, inadequate technological infrastructure, and limited expertise in Sharia-based finance.

On the other hand, Islamic financial institutions have great opportunities, such as the increasing global demand for sustainable finance, the development of financial technology (fintech), and government policy support for a Sharia-based economy. However, they must also anticipate threats, including competition from conventional financial institutions, cross-country regulatory uncertainty, and limited public perception of Islamic finance. To maximize the effectiveness of SWOT analysis, integration with other strategic tools such as PESTEL, Porter's Five Forces, and Shariah governance is essential. This combination allows Islamic financial institutions to not only understand internal and external conditions, but also develop strategies that are more adaptive and relevant to the changing needs of the market.

As a concrete step, Islamic financial institutions can leverage their strengths to support sustainable development goals (SDGs) through products such as green sukuk, productive waqf financing, and zakat-based social investment. Thus, SWOT is not only an analytical tool, but also a guide to direct Islamic financial institutions towards sustainability and global competitiveness. Overall, SWOT analysis provides an important starting point for Islamic financial institutions to understand potentials, overcome obstacles, and design strategies that are in accordance with Sharia values. With optimal utilization, SWOT can help

Islamic financial institutions strengthen their role as pillars of an ethical, inclusive, and sustainable economy in this modern era.

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