

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF STUDY

Nowadays, Manufacturing industry being faced with a competitiveness due to new trends of business and improvement of technology. To cope with the trends, company need to implement a good supply chain management and integrate them well.

The supply chain integrates the core business processes of end users with the original suppliers providing products, services and information that adds value to customers and other parties involved (Wright, 2016). Supply chain takes a big role in the company which lead to better performance and competitive advantage. From the explanation of the concept that supply chain lead to a better performance and competitive advantage, supply chain integration will have taken place to minimize the problem. Manufacturing company around the world started to implement a better supply chain integration in order to increase their business performance.

In this era of competition, the success of a company increasingly dependent on management's ability to integrate their business structure and relationship with external relationships. Supply chain management (SCM) refers to the active management of supply chain activities to maximize customer value and achieve a sustainable competitive advantage. A manufacturer's competitive advantage is highly dependent on the integrated management function such as growing body of tools, techniques, and skills for coordinating and optimizing key processes, function, and relationships between the manufacturer, supplier, and customer to create a low cost, efficiency, and flexibility of the company.

Nowadays, Supply Chain Integration is one of the most important things in the manufacturing industry. With a good integration in all part of the manufacturing including from the suppliers, internal, until the external

object; company can improve their performance. Supply Chain Integration (SCI) helps companies internally and externally to consolidate their entire supply chain in order to improve long-term performance Supply Chain Integration (SCI) (Huo, et.al, 2014). Supply Chain Integration contain a lot of dimensions such as internal integration, external integration, customer integration and supplier integration. Companies must be prepared to share information with suppliers and customers before this integration process takes place. Each partner in the supply chain shares knowledge consistently during the integration process, thus creating one common knowledge.

Recently, People are more focusing supply chain integration only on the internal operations. However, the trend is slowly moving towards the external side. In which external side talks about the relationship between two firms as business to business relationship, or as business to end customer relationship. However, this research takes into account both internal and external integration aspects. Moreover, the integration of customers and suppliers into this study involves external integration. Integration consists of four stages: the fundamental, internal functional integration, supply and request integration across the company's own chain and the full chain. Research also verified the efficiency and effectiveness of internal integration in order for external integration to operate. (Osei & Kagnicioglu, 2017)

TABEL 1. PERKEMBANGAN NILAI EKSPOR PER JENIS INDUSTRI PENGOLAHAN (DALAM RIBU US\$)
TAHUN 2017 S.D JUNI 2018

| NO | JENIS INDUSTRI | JUNI | | | PERUBAHAN | | JAN-JUN | | PERUBAHAN | | JAN-DES | | PERUBAHAN | |
|---|--|-----------|------------|-----------|------------|------------|------------|------------|------------|-------------|-------------|------------|-----------|------|
| | | 2017 | 2018 | 2018 | m-to-m (%) | y-to-y (%) | 2017 | 2018 | c-to-c (%) | 2017 | 2018 | y-to-y (%) | 2017 | 2018 |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) |
| TOTAL EKSPOR INDUSTRI PENGOLAHAN | | | | | | | | | | | | | | |
| | | 8.510.097 | 11.750.267 | 8.544.879 | -37,28 | 0,30 | 59.813.822 | 63.012.556 | 5,35 | 110.504.128 | 125.103.162 | 13,21 | | |
| 1 | MAKANAN | 1.144.870 | 2.438.447 | 2.008.731 | -17,62 | -6,35 | 13.431.335 | 14.249.898 | 7,86 | 29.276.439 | 31.728.817 | 20,75 | | |
| a | SAWIT | 1.297.867 | 1.130.133 | 1.265.439 | -2,53 | -2,50 | 9.379.896 | 8.048.762 | -14,21 | 14.679.217 | 18.829.136 | 28,27 | | |
| b | NON SAWIT | 847.003 | 1.140.214 | 743.292 | -34,81 | -12,24 | 6.051.439 | 6.203.133 | 2,51 | 11.597.223 | 12.899.681 | 11,23 | | |
| 2 | MINUMAN | 8.711 | 13.938 | 9.360 | -32,48 | 7,46 | 34.195 | 30.551 | -8,04 | 118.029 | 121.537 | 3,02 | | |
| 3 | PENGOLAHAN TEMBAKAU | 75.682 | 123.642 | 70.372 | -43,89 | -6,77 | 515.744 | 547.187 | 6,10 | 959.700 | 1.085.871 | 13,15 | | |
| 4 | TEKSTIL | 299.960 | 445.083 | 297.094 | -33,25 | -6,98 | 2.200.712 | 3.960.263 | 7,25 | 4.660.054 | 4.655.820 | -0,09 | | |
| 5 | PAKAIAN JADI | 619.452 | 783.885 | 565.310 | -27,88 | -8,24 | 3.797.997 | 4.117.847 | 8,42 | 7.212.686 | 7.919.296 | 9,80 | | |
| 7 | KAYU, BARANG DARI KAYU DAN GABUS (TIDAK TERMASUK FURNITUR) DAN BARANG ANYAMAN DARI BAMBU, ROTAN DAN SEJENISNYA | 362.704 | 537.462 | 330.700 | -38,47 | -8,82 | 2.611.567 | 2.778.634 | 6,40 | 5.014.492 | 5.362.554 | 6,94 | | |
| 8 | KERTAS DAN BARANG DARI KERTAS | 438.839 | 622.568 | 539.048 | | 17,48 | 2.767.042 | 3.560.843 | 28,89 | 5.067.505 | 6.309.417 | 24,51 | | |
| 9 | PENCETAKAN DAN REPRODUKSI MEDIA BEKAMAH | 1.869 | 4.483 | 1.017 | -77,33 | -48,18 | 24.142 | 18.958 | -19,20 | 91.542 | 37.466 | -7,86 | | |
| 10 | PRODUK DARI BATU BARA DAN PENGLANGAN MINYAK BUMI | 3,90 | 3.166,55 | 1,14 | -99,56 | -47,46 | 44 | 5,75 | 13.019,10 | 634 | 299 | -66,97 | | |
| 11 | BAHAN KIMIA DAN BARANG DARI BAHAN KIMIA | 828.301 | 1.232.583 | 1.087.621 | -11,76 | 31,31 | 6.143.270 | 6.682.978 | 8,79 | 10.245.460 | 12.700.853 | 23,97 | | |
| 12 | FARMASI, PRODUK OBAT KIMIA DAN OBAT TRADISIONAL | 48.750 | 50.972 | 33.826 | -33,64 | -30,61 | 306.550 | 283.315 | -7,58 | 644.314 | 631.847 | -1,93 | | |
| 13 | KARET, BARANG DARI KARET DAN PLASTIK | 297.829 | 497.533 | 478.998 | -31,62 | -14,46 | 4.540.217 | 2.839.292 | -35,46 | 6.857.844 | 8.610.024 | 25,25 | | |
| a | KARET MENTAH | 332.905 | 391.182 | 289.491 | -33,41 | -19,02 | 2.910.867 | 2.056.012 | -29,71 | 3.761.145 | 5.091.178 | 33,43 | | |
| b | NON KARET MENTAH | 224.727 | 336.351 | 207.597 | -38,33 | -7,62 | 1.729.350 | 1.783.380 | 2,95 | 3.496.499 | 3.518.846 | 0,67 | | |
| 14 | BARANG GALIAN BUKAN LOGAM | 89.673 | 104.380 | 89.522 | -33,40 | -2,22 | 448.571 | 502.599 | 12,04 | 887.007 | 912.423 | 2,87 | | |
| 15 | LOGAM DASAR | 873.205 | 1.531.192 | 1.115.077 | -31,64 | 27,70 | 4.824.407 | 7.848.149 | 58,53 | 8.249.269 | 11.853.113 | 43,89 | | |
| 16 | BARANG LOGAM, BUKAN MESIN DAN PERALATANNYA | 68.060 | 105.569 | 68.995 | -34,73 | 1,24 | 484.118 | 527.885 | 9,04 | 1.695.843 | 976.042 | -39,14 | | |
| 17 | KOMPUTER, BARANG ELEKTRONIK DAN OPTIK | 443.513 | 540.365 | 415.578 | -33,09 | -6,30 | 2.714.658 | 3.912.884 | 4,60 | 5.871.651 | 6.119.939 | 4,23 | | |
| 18 | PERALATAN LISTRIK | 339.400 | 473.861 | 314.116 | -33,71 | -7,45 | 2.437.053 | 2.464.200 | 1,11 | 4.578.398 | 4.993.548 | 9,12 | | |
| 19 | MESIN DAN PERLENGKAPAN YTDL | 188.130 | 269.136 | 172.743 | -35,82 | -8,18 | 1.505.068 | 1.384.954 | -7,98 | 3.426.295 | 2.970.006 | -13,32 | | |
| 20 | KENDARAAN BERMOTOR, TRAILER DAN SEMI TRAILER | 358.298 | 524.991 | 352.241 | -45,53 | -1,69 | 2.813.065 | 2.840.050 | 1,28 | 2.141.680 | 5.895.216 | 174,66 | | |
| 21 | ALAT ANGKUTAN LAINNYA | 111.149 | 232.520 | 144.198 | -35,31 | 29,73 | 921.000 | 1.155.142 | 25,42 | 2.124.722 | 1.948.907 | -8,27 | | |
| 22 | FURNITUR | 110.147 | 151.507 | 86.750 | -42,74 | -21,24 | 826.905 | 840.893 | 1,68 | 1.617.755 | 1.617.800 | 0,00 | | |
| 23 | PENGOLAHAN LAINNYA | 292.436 | 320.263 | 149.241 | -53,40 | -48,97 | 2.574.226 | 2.172.202 | -15,62 | 6.161.074 | 4.817.749 | -21,80 | | |

Catatan : *) Angka Sementara

Figure 1.1 Import Index 2017-2018

Source: Ministry of Trade

Manufacturing Industry especially in furniture industry has been very competitive these days. According to Tempo.com, Export of Furniture and Wood Crafts reaches USD 1,4 Billion. The number increased 4,83 percent from last year in the same period of time. Ministry of trade stated that furniture industry is one of key sector of Indonesia's export which will impact to Indonesia's economic growth. (Akbar, 2018)

The table above shows the value of export for processing industry in Indonesia. For wood, items made from wood and cork (excluding furniture), rattan, etc. is stated in number 7. The number increase 13,38% from 2017 to 2018 with the number increase from US\$1.811,938 to US\$2.054,303 in 2018. While, for furniture stated in number 22 the percentage slightly increased 1,68% from US\$826.905 to US\$840.803.

| KOMODITI | JUNI 2017 | MEI 2018 | JUNI* 2018 | PERUBAHAN m-to-m (%) | PERUBAHAN y-o-y (%) | JAN-JUN 2017 | JAN-JUN* 2018 | PERUBAHAN c-to-c (%) | JAN-DES 2016 | JAN-DES 2017 | PERUBAHAN y to y (%) |
|---|--------------|-------------|---------------|-------------------------|------------------------|-----------------|------------------|-------------------------|-----------------|-----------------|-------------------------|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) |
| SUKU CADANG KENDARAAN BERMOTOR RODA DUA ATAU TIGA | 7.913 | 12.558 | 5.238 | -58,29 | -33,00 | 54.307 | 54.817 | 0,94 | 112.079 | 110.227 | -1,65 |
| SUKU CADANG SEPEDA DAN SEJENISNYA | 4.424 | 6.114 | 2.577 | -57,85 | -41,75 | 23.525 | 29.553 | 25,63 | 82.019 | 47.987 | -42,06 |
| PESAWAT UDARA DAN BAGIANNYA | 121 | 231 | 290 | 25,57 | 139,62 | 779 | 1.306 | 67,52 | 2.374 | 1.939 | -18,33 |
| SUKU CADANG MESIN KENDARAAN RODA DUA DAN TIGA SEPEDA DAN SEJENISNYA | 21 | 108 | 35 | -67,57 | 65,23 | 575 | 698 | 21,26 | 1.326 | 988 | -25,49 |
| LOKOMOTIF DAN GERBONG KERETA SERTA KELENGKAPANNYA | 1.524 | 3.839 | 1.729 | -54,95 | 13,46 | 10.103 | 18.888 | 86,95 | 21.950 | 27.241 | 24,10 |
| SUKU CADANG KENDARAAN BERMOTOR PERAHU LAYAR DAN SEJENISNYA KERETA BAYI INDUSTRI LAINNYA ALAT ANGKUTAN LAINNYA | 1.196 | 1.071 | 902 | -15,85 | -24,63 | 7.211 | 8.818 | 22,28 | 38.256 | 48.376 | 26,46 |
| SUKU CADANG KENDARAAN BERMOTOR PERAHU LAYAR DAN SEJENISNYA KERETA BAYI INDUSTRI LAINNYA ALAT ANGKUTAN LAINNYA | 867 | 1.669 | 939 | -43,73 | 8,26 | 8.147 | 8.967 | 10,06 | 18.077 | 17.258 | -4,53 |
| SUBTOTAL | 120.054 | 160.745 | 44.765 | -72,15 | -62,71 | 558.219 | 514.332 | -7,86 | 1.298.602 | 1.173.907 | -9,60 |
| INDUSTRI FURNITUR | | | | | | | | | | | |
| FURNITUR DARI KAYU | 3.053 | 7.433 | 3.035 | -59,17 | -0,60 | 25.713 | 30.591 | 18,97 | 40.424 | 56.119 | 38,82 |
| FURNITUR DARI ROTAN ATAU BAMBU | 146 | 829 | 252 | -69,56 | 72,90 | 1.348 | 3.014 | 123,60 | 1.067 | 3.934 | 268,74 |
| FURNITUR DARI LOGAM | 4.533 | 7.815 | 3.307 | -57,68 | -27,05 | 31.890 | 32.282 | 1,36 | 67.390 | 64.745 | -3,92 |
| FURNITUR DARI PLASTIK | 671 | 1.131 | 399 | -64,71 | -40,49 | 5.731 | 4.722 | -17,61 | 12.507 | 11.129 | -11,02 |
| FURNITUR LAINNYA | 1.486 | 2.289 | 1.251 | -45,36 | -16,50 | 10.590 | 11.815 | 11,57 | 21.215 | 24.716 | 16,50 |
| SUBTOTAL | 9.901 | 19.496 | 8.244 | -57,72 | -16,73 | 75.232 | 82.423 | 9,56 | 142.603 | 160.644 | 12,65 |

Figure 1.2 Import Index per item 2017-2018

Source: Ministry of Trade

On the table above, in the furniture section, the number of furniture made from rattan and bamboo increase in a huge percentage. The percentage increase US\$1.348 to US\$3.014 for about 123.60%.

CV Karya Indra is a national private manufacturing base company in Medan which manufacture furniture, home appliances, and handicraft made from rattan. CV Karya Indra produces various types of rattan products such as Basket, Rattan Furniture like room divider, chairs, tables, etc., Carpet such as webbing or rattan mat, and Rattan Peel Sheet. CV Karya Indra main Manufacturing Facility located at Jalan Karya Jaya, Gedung Johor, Titi

Kuning km 8,5 Desa Deli Tua, Deli Serdang, North Sumatra. While, their main office is at Jalan Bawean No. 45 Medan, North Sumatra. CV Karya Indra have a big market both domestic and international. Their cope of international market includes Japan, Korea, United States, Hongkong, Taiwan, South Korea, Malaysia, Singapore, China, Netherlands, etc. With the high number of exports, CV Karya Indra needs to have a good integration in their supply chain in order to deliver their products to their customers on time.

The number of sales in CV Karya Indra have a good trend year by year. The number of units produced year to year keep increasing from 2015 to 2018. Besides having the up-trending sales every year, they always set target every year. Below are the number of sales per year of CV Karya Indra:

Table 1.1 Number of Sales per Year

| Year | Target | Number of Unit Produced (per item) | Percentage Change (%) |
|------|--------|------------------------------------|-----------------------|
| 2015 | 2000 | 3.690 | 0 |
| 2016 | 2250 | 2.629 | -1.06 |
| 2017 | 2500 | 3.211 | 5.82 |
| 2018 | 2750 | 2.981 | -2.3 |

Source: CV Karya Indra (2019)

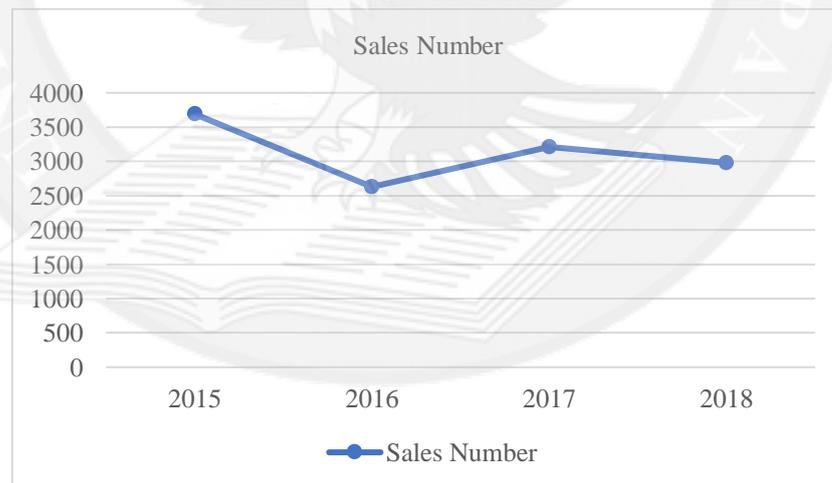


Figure 1.3 Number of Sales per Year

Source: CV Karya Indra

The figure above shows the number of units sold from 2015-2018. The figure shows a fluctuation in every year sales. 2015 sales show 3.690 units of products sold, in 2016 the number of products sold decrease to 2.629

units. In 2017, the number of units sold increase 5.82% to 3.211 units. Last year, the number decrease a little 2.3% to 2.981 units. The fluctuation data shows that CV Karya Indra have some problems to make their sales increase every year.

Supply Chain Integration in CV Karya Indra are facing some problems in their transitions of some information between each of their department and between the company and their subsidiaries company which is consider as suppliers of the raw rattan material. When their supplier late in delivering the company's order, it will have a domino effect to each of department inside the company. For example, supplier late to supply the material to the company that will affect each sector in the company such as the basket production section, carpet production section, and sabrina production section. Furthermore, each of the section have a different time to finish the production which result in the late delivery to their customer. Therefore, the writer is then interested to identify the relationship between Supply Chain Integration and CV Karya Indra's performance through this final paper entitled **“The Impact of Supply Chain Integration Towards Firm Performance at CV Karya Indra”**.

1.2 PROBLEM LIMITATION

Due to limitation of time, budget, the writer would like to limit the research to Supply Chain Integration as the independent variable, whose dimensions are Internal Integration, Supplier Integration, Information Integration, and Customer Integration, and its relation to Firm Performance as the dependent variable, whose dimensions are Operational Performance, Financial Performance, Employee Satisfaction, and Customer Satisfaction at CV Karya Indra. This research is conducted from January 2019-May 2019 and focused on the supply chain integration and firm performance at CV Karya Indra.

1.3 PROBLEM FORMULATION

In this study, some research questions are to be answered as follows:

- a. How integrated is the supply chain at CV Karya Indra?
- b. How good is the firm performance of CV Karya Indra?
- c. Does supply chain integration have impact on the firm performance at CV Karya Indra?

1.4 OBJECTIVE OF THE RESEARCH

The followings are the objective of this research:

- a. To investigate how integrated is the supply chain at CV Karya Indra
- b. To investigate the overall performance at CV Karya Indra
- c. To identify the impact of integration on Performance at CV Karya Indra

1.5 BENEFIT OF THE RESEARCH

The followings are the benefit of conducting this research:

1.5.1 Theoretical Benefit

The result of the research would expand knowledge in academic area, especially on Supply Chain Integration and Firm Performance

1.5.2 Practical Benefit

- a. For the writer, the benefit would be expanding knowledge & experience on the Supply Chain Integration and Firm Performance.
- b. For the company, recommendation for company to improve based on the research results.
- c. For other Researcher, the results or findings from this research can be used as the reference for any studies on similar area.

1.6 SYSTEMS OF WRITING

The following is the system of writing of this research:

Chapter I Introduction

This chapter elaborates about the background of study, problem formulation, objective of the research, benefit of the research including theoretical and practical benefit, and systems of writing.

Chapter II Literature Review and Hypothesis Development

This chapter explains about theoretical background, previous research, hypothesis development, research model and framework of thinking.

Chapter III Research Methodology

This chapter provides information about research, population and sample concepts, method of data collection, operational definition of variable measurements and methods of data analysis.

Chapter IV Data Analysis and Discussion

This chapter provides an overview of "CV Karya Indra" assessment of information, descriptive statistics, data quality testing, hypotheses and discussion results.

Chapter V Conclusion

This chapter elaborates the conclusion of this research, implication, and recommendation.