

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Total Quality Management or TQM generally acknowledged as an approach to organizational management brings about enhanced performance. Total Quality Management consists of two main aspects: Quality Management System or QMS, and Continual Quality Improvement or CQI (Gaspersz, 2012). Over the past three decades, organizations worldwide have been aggressively pursuing quality management. A commonly held view is that high quality products and services result in improved operational, business, and financial performance. QMS can be expressed as the organizational structure, procedures, processes, and resources needed to implement quality management.

The reasons for the high level of interest in quality standards and quality management have risen because of the continued growth in world trade and the need of countries for an ever-increasing strategy to have access to the world markets (Lee *et al.*, 1999). As the demand for higher quality products and services keep increasing, producers of products and services are also expected to improve its quality and innovate sustainably.

As key to a company's success, QMS allows organizations to keep up with and meet current quality levels, meet the consumer's requirement for quality, retain employees, and keep up with the latest technology. Moreover, QMS also provides employee performance measurement so that the company can understand the current condition of its company, and its employee (Mei Feng *et al.*, 2006). Thus, for companies, quality management system has been an important consideration. One of the most internationally well-known quality management system standard is ISO certification. In the last two decades, there has been a rapid development of quality management systems, including ISO 9001, as a corporate strategy to gain a competitive edge (Bardoel & Sohal, 1999). This is

evidenced by the remarkably growing number of companies certified for ISO 901 worldwide, shown in Figure 1.

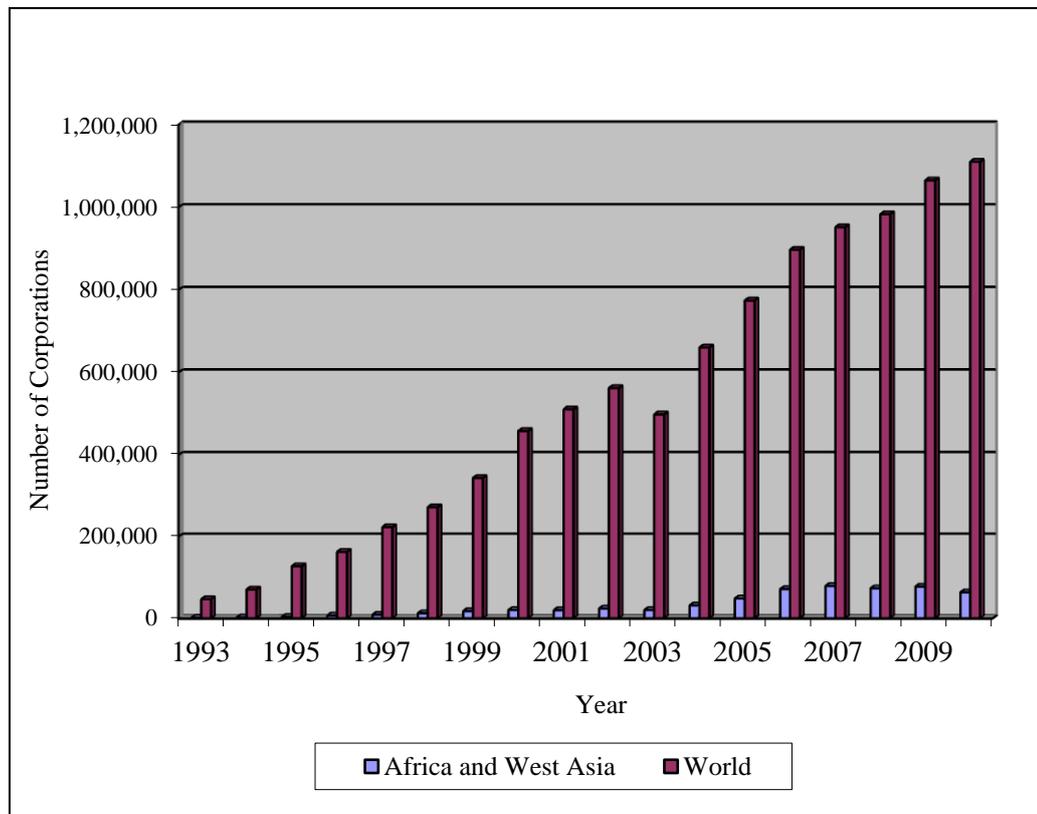


Figure 1. Companies with ISO 9001 Certification in Africa, West Asia and World
Note. From ISO Survey, 2011

From Figure 1, Africa and West Asia are aware of the importance of ISO 9001 certification as shown by the increasing number of ISO 9001 certified companies, with total of 1,109,905 certified corporations worldwide. ISO 9000 series standards are widely accepted as the minimum standard of corporate quality systems. Basically, the ISO 9000 series standards is a series that describe good quality standard practices, without explaining how a company should achieve it (Purnama, 2005). Standard ISO 9000 provides requirements for the management systems quality for the company, but attempts to meet these standards are not set in ISO 9000. This means that organizations should seek to achieve the provisions required in these standards.

The ISO 9001 is series of ISO 9000 assuring quality management system. ISO 9001 is the development of previous series (ISO 9000; revised in 1994, 2000, and 2008) and was then called as ISO 9001. ISO 9000 describes the general philosophy of quality system standards, characteristics, types, and where and when the standard is properly applied. It also describes the elements that should be included in this model of quality assurance (Gaspersz, 2012). The ISO 9001 quality system includes design or development, production, installation and service; ISO 9002 for production and installation; ISO 9003 for final inspection and testing; and ISO 9004 is a guide to quality management and quality system elements. ISO 9001 is the merged standards of the previous ISO 9001 (in 1994), ISO 9002, and ISO 9003 (Sonhadji, 1999).

Moreover, ISO 9001 certification can be an answer for increasing demands of improved quality of products and services (from customers' side), and for competitive price that producers are facing (Semuel & Zulkarnaen, 2011). Improved quality and competitive price are distinctive competitive advantage for corporation to stay in the business. Quality management programs have been extensively applied around the world, as companies seek to attain and sustain a competitive advantage (Zu, Fredendall, & Robbins, 2006). Highlands (1995) and Elmuti (1996) claimed that productivity, quality of product, and quality of work life improved due to ISO 9000 (9001) certification. Several studies showed that TQM practices allow firms to compete globally (Easton, 1993; Ernst & Young, 1991; Handfield, 1993; Hendricks and Singhal, 1996; Womack & Roos, 1990).

Mei Feng *et al.* (2006) reviewed the approach of implementing ISO 9001 certification from three dimensions. These dimensions are ISO 9001 certification planning, organizational commitment, and procedures implementation. Masulah (2010) concluded that there is a significant relationship between ISO certification and organization commitment. However, Larson (1977) questioned organizational commitment and whether the certification process was necessary. Large amount of time and effort is needed in order to maintain the ISO 9000 (9001) certification. Briscoe *et al.*, (2005) stated that many small and medium enterprises (SMEs)

encountered difficulties in introduction, development, and measurement of ISO 9001 management systems. Thus, organizational commitment, supported by correctly implemented procedures such as Standard Operation Procedure (SOP), is needed for the success of ISO 9001 certification.

The success or failure of ISO implementation is largely correlated to organizational culture (Kekale, 1999; Parncharoen *et al.*, 2005) because ISO will change the working process of corporation. TQM is effective to develop quality culture elements and the developed culture will support the success of the business process (Gore, 1999). Human resource problems, performance appraisal, and strategic problems were the most important obstacles to TQM success respectively (Rad, 2006). According to Metri (2005), quality culture is one of the most critical factors in implementing TQM compared to other factors. Therefore, corporate quality culture is considered as success indicator of TQM implementation.

Employee performance is another indicator for a corporation's success. When ISO 9000 certification is implemented, TQM might be the foundation to build quality organization. Sidney (1995) indicated that improper procedures or carelessness during construction operations led to poor quality of workmanship. On the other hand, Terziovski *et al.* (1997) found that ISO 9000 (9001) certification does not have a significant relationship with organizational performance whether the organization is ISO certified or not. Brenner *et al.* (2004) also stated that formalization and documentation of work practices can negatively impact employee performance such as reducing their skills and giving trauma. Samuel and Zulkarnaen (2011) found that there is direct effect but not significant between certification planning to employee performance. These contradictory results held the attention of the researcher to conduct this study.

Figure 2 explained that employees of ISO certified companies (in construction field) showed better performance, by generating less DPMO (Defect

per Million Opportunity). It proved that ISO certification influences and improves employee performance.

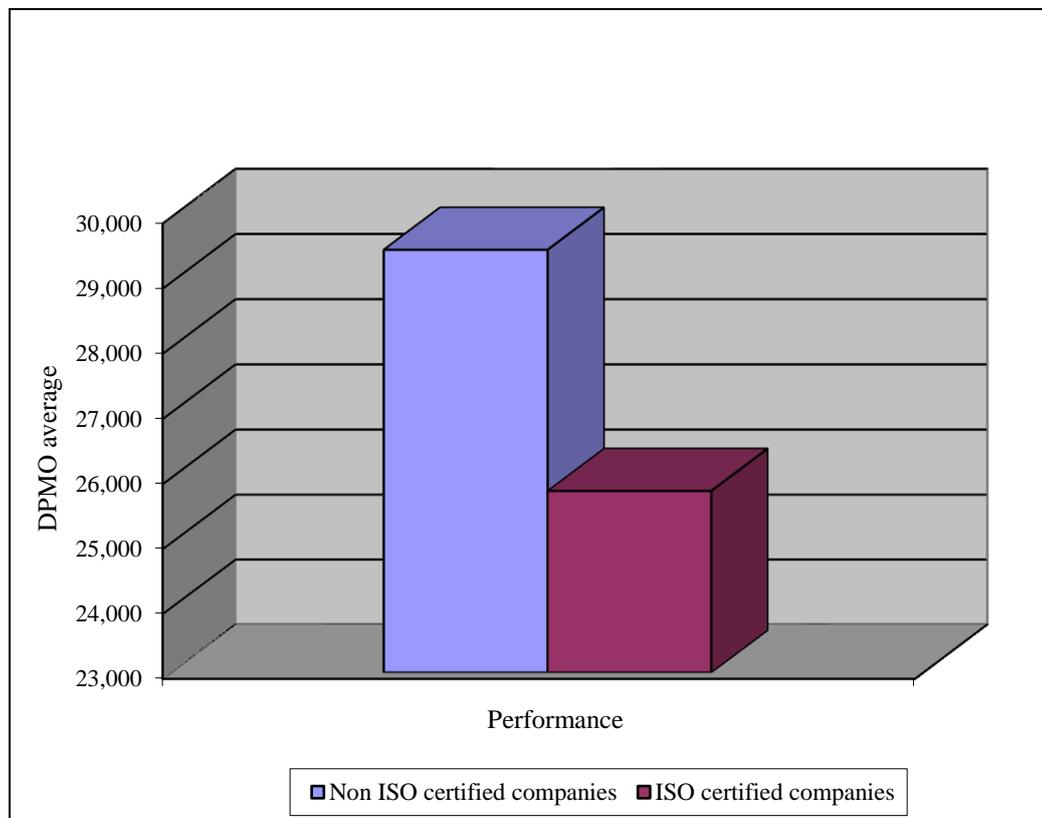


Figure 2. Comparison of DPMO (Defect per Million Opportunity) for ISO and non ISO Certified Companies

Note. From Zaenuddin and Soemartono, 2006

One of the Indonesian companies with ISO 9001 certification is PT. Aneka Gas Industri. Started as a Dutch company, PT. Aneka Gas Industri specializes in gas production since 1916. Its core business is to supply industrial gases and related services. PT. Aneka Gas Industri, as part of Samator Group, represented the pioneer in the Indonesian gas industry. According to the company's official website (www.anekagas.com), its production facilities are located throughout the country with sixteen industrial gas factories and thirty two filling stations. One of its factory is located in Beringin Bendo, Taman, Sidoarjo, which is also the biggest plant. PT. Aneka Gas Industri had achieved ISO 9001 certification since 2003 and recertified ISO 9001:2008 by SAI Global from 5 May 2009 as the company's commitment in quality and service. PT. Aneka Gas Industri has

implemented quality management system from the beginning of its process: production process, product testing, bottling and filling process, distribution, strict documentation of activities, until the product reaches its customers.

The ISO 9001:2008 certification has helped the company to improve its operational system. According to the Management Representative of PT. Aneka Gas Industri V, who are responsible for the implementation of ISO 9001:2008 in the company, ISO 9001:2008 certification accommodated the company to perform consistently by having practical and comprehensive rules of work in order to satisfy customer. Each of working activities has its own mandatory procedures and work instructions to be followed. Furthermore, top management commitment is seen from close review in assuring the quality by supporting periodic audits and giving continuous recommendation for improvement. Based on interview with the Human Resources Department manager, management of PT. Aneka Gas Industri also emphasized on quality in their corporate culture written in the ten principles of corporate culture and quality policy socialized to the employees. In 2004, PT. Aneka Gas Industri also achieved Zero Accident Award from Department of Labor of Indonesia, as an evident that the company had improved the work performance. To this end, no author had ever researched about the effects of ISO 9001:2008 certification and its corporate quality culture towards employee performance in PT. Aneka Gas Industri V, Sidoarjo.

Based on the phenomenon and theories above, the researcher conducted a study entitled: ***“The Effects of ISO 9001:2008 Quality Management System and Corporate Quality Culture towards Employee Performance at PT. Aneka Gas Industri V, Sidoarjo”***.

1.2 Research Problems

According to the background of the study, the research problems are:

1. What are the characteristics of the employees at PT. Aneka Gas Industri V, Sidoarjo?
2. Does ISO 9001 certification planning significantly affect corporate quality culture? to employee performance?
3. Does organizational commitment significantly affect corporate quality culture? to employee performance?
4. Does procedures implementation significantly affect corporate quality culture? to employee performance?
5. Does corporate quality culture significantly affect employee performance?
6. Do ISO 9001 certification planning, organizational commitment, and procedures implementation have significant effects to corporate quality culture? to employee performance?

1.3 Research Objectives

The objectives of this proposed research are as follows:

1. To present the demographic characteristics of employees of PT. Aneka Gas Industri V, Sidoarjo;
2. To analyze the individual and simultaneous significant effects of ISO 9001 certification, organizational commitment, and procedures implementation to corporate quality culture;
3. To determine significant effects of corporate quality culture to employee performance; and
4. To verify the individual and simultaneous significant effects of ISO 9001 certification, organizational commitment, and procedures implementation to employee performance.

1.4 Research Contributions

The research contributions are as follows:

1. Theoretical Advantages

This research contributes as a basis of reference in Strategic Management and Human Resource, and addresses questions in the literature by exploring the theory of ISO certification quality management system, corporate quality culture, and employee performance. This study can also be a reference for further studies in similar and related fields.

2. Empirical Advantages

a. For PT. Aneka Gas Industri V, Sidoarjo

The result of this study is useful to PT. Aneka Gas Industri V, Sidoarjo regarding its human resource management and corporate culture development. This study can help the company to emphasize the importance of ISO 9001 certification. This study is expected to be an input to PT. Aneka Gas Industri, Sidoarjo in continuous improvement in its operational process (specifically procedures of ISO 9001), its human resource management, and the production of better products.

b. For the researcher

This study increases the researcher's knowledge, in theory and practice, specifically on human resource management, TQM, and corporate culture. It completes researcher's knowledge on ISO 9001 certification, organizational commitment, procedure implementation, corporate quality culture, employee performance, as well as the individual and simultaneous effects of these variables. The researcher also has the opportunity to apply the given theories learned in class.

1.5 Research Limitation

This research used PT. Aneka Gas Industri V, Sidoarjo as the allowed research object. This research used the variables for ISO 9001 quality system

which are: ISO 9001 certification planning, organizational commitment, and procedures implementation, corporate quality culture as intervening variable, and employee performance as dependent variable. As part of company policy, employees' salary is kept confidential. Response rate for this research is 77% (108 out of 141 employees). This research is done on August 2012 until December 2012.

1.6 Research Outline

Research outline explains the systematic writing of this study. The outline is divided into five chapters as follows:

- Chapter I : This chapter sets up the research problem for the reader. It also provides the background information defining the issue and important terms. It specifies the research objectives explored in greater detail to contribute to understanding the research problem.
- Chapter II : This chapter summarizes the major studies and findings that have been published on the research topic and how this study contributes or adds to what has already been studied. This chapter also states a clear description of ISO 9001 certification, organizational commitment, procedures implementation, corporate quality corporate, and employee performance theories that apply to the research problem, an explanation of why it is relevant, and how the modeling efforts address the hypothesis to be tested.
- Chapter III : This chapter explains the detailed technical and scientific activities which include the research design, sampling plan, instrumentation, statistical tools, and treatment of data.

Chapter IV : This chapter organizes a logical presentation of the findings that address the research questions, and focus on how these key findings relate back to the theory and prior researchers presented at the beginning of the study.

Chapter V : This chapter outlines the implications, conclusions, and recommendations supposed to advance the study of the research topic by its theoretical, methodological, or substantive contributions that may be necessary to overcome the limitations of existing empirical facts.