

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Throughout these past several years, businesses have continuously showed a rapid growth due to the globalization. Globalization has bring the world into a global transformational era, where the communication and commerce become global, investment become mobile and the technology become magical. As the result of globalization, the economies around the world have transformed into a more numerous and massive scale by engaging in the international trade of manufactured goods and services. This activities may be potential through portfolio investments such as international loans, stocks purchase, and also through foreign direct investment in a multinational corporations (Okoye & Nwaigwe, 2015).

Due to the competitive situation created by globalization, firms are forced to associate more with their customers, suppliers, and every single business processes in pursuing of surviving their bussiness. Nowadays, firms seems to be more focus on details, starting from the raw material sources, product's design, production, transportation and distribution system, up to the crucial point which is to ensure the customer satisfaction level. Among these contributions, firms appear to put all efforts to elevate their products or services value.

In these uncertain global market situation where the economy tends to have an instantaneously development and vicious competition, supply chain management has become a necessary issues for most businesses. Wright (2016) mentioned that some of the most successful firms seem to have a careful yet successful integration of their internal processes to the external suppliers and customers in their supply chain management system. Firms started to invent more alternative and innovative ways in order to achieve efficiency and effectiveness in their daily operations. It is believed to create a better situation for firms to manage and control their supply chain management.

According to Stanton (2018), managing supply chain effectively doesn't only mean managing things inside firms, but also involving coordination between inside and outside process of firms. Commonly, supply chain performer consists of all the parties that both directly or indirectly involved, such as manufacturers, suppliers, transporters, warehouses, retailers and customers. To summarize things above, supply chain management can be defined as the network management of the goods and services flows includes all processes that transform raw materials into final products by involving the business's supply-side activities with the purpose to gain more advantages in global economy market.

The lack of coordination and integration among the vital functions of the supply chain management system would lead to inefficiency which can waste the organizational efforts and resources. Therefore, supply chain integration is widely believed to become a very useful approach in improving firm performance and also to become one of important strategy to get the market's competitive

advantage. Supply chain is believed as one of the vital factor that play a big role in enhancing the operational efficiency, profitability, and competitive position achievement of a firm through product customization, cost reduction, and also quick distribution. It helps firms by combining all the internal functions within companies and effectively linking them with the external operations of suppliers, customers, and other channel that might have contributed in creating value for the businesses (Heizer et al., 2017).

Due to the inconsistency of global market turbulence, preparation for facing higher risks and uncertainties in global market through more flexible solutions are required. Thus, an integrated supply chain has become a very vital element in the attainment of organizational performance objectives. According to Zhao et al. (2008) statement as cited in Khan and Wisner (2019), a good coordination between supply chain partners leads to a qualified supply chain management system with a better operation performance. A qualified supply chain management usually involve a mutual understanding, common vision, shared resources, and achievement of goals within firms.

Firm performance are categorized as a critical measurement for investors or stakeholders to decide whether the firm is worth to be invested or not. Basically, the performance of firm is the first thing evaluated by the investor. For instance, people who are interested and concerned in developing and investing their assets are encouraged to look forward for firm that shows a higher performance than other. This resulted firm performance comes out as an outstanding factor to define the quality of a firm.

Firms' success basically defined by their performance level over a period of time. It can be considered as a complex concept which usually used to define the success of businesses (improving efficiency, reducing turnover rate, and increasing profitability & market share). Firm performance can be viewed as a part of the business development of the firm where the business development reflects the firm's performance and effectiveness of the performance level. For that reason, firms tend to focus more on how to develop and increase their performances through a more effective and efficient way (Civelek et al., 2015).

According to Schlegel (1999) as cited in Min (2015) in "The Essential of Supply Chain Management New Business Concepts and Applications" book, stated that a successful supply chain integration process can bring number of positive outcomes especially to the firm performance, such as improved customer services & value added, enhanced fixed capital, utilized asset, increased sales and profitability, and financial benefits.

PT Makmur Andalan Sawit considered as a private corporation that was established in 2010 and has been in operation for approximately ten years. It engages in palm oil production fields with the headquarter office located in Medan, North Sumatra and palm oil mills located in Sorek, Riau. PT Makmur Andalan Sawit purchases the palm oil plantation's output from the suppliers and proceeds it into Crude Palm Oil (CPO). Beside CPO, the firm also has Palm Kernel, Palm Shells, Palm Fibre, and Palm Soft Fibre, which also has a significant market selling value.

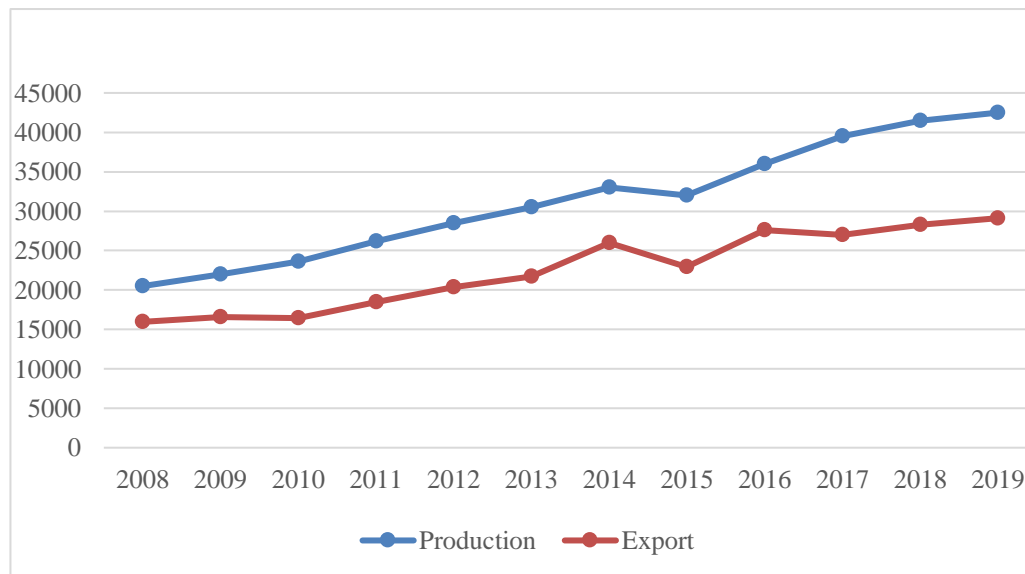


Figure 1.1 Indonesia's Palm Oil Production and Export (in 1000 MT)

Source: Index Mundi (2020)

The data in the figure 1.1 above show the total production and export quantity of Indonesia's crude palm oil (CPO) from the year of 2008 until 2019, has gradually increase over years. Indonesia has been classified as a country with a high potential in palm's oil industry. Through the data above, it can be inferred that Indonesia's palm oil production has grown gradually in one last decade. Although the data shows that the production has fluctuated on 2014 - 2017, palm oil's production has hit its peak on 2019.

Beginning their business by expanding domestically, PT Makmur Andalan Sawit sells their products to the domestic palm oil firm such as PT Musim Mas, SMART Tbk., Permata Hijau Group, Astra Group, and others. As the time goes, when palm oil demand for both domestic and foreign are actively increasing, international trade seems to be a good alternative way to enlarge business. By the end of 2017, PT Makmur Andalan Sawit started to export their CPO to India, China, and Singapore. As PT Makmur Andalan Sawit began to sell and ship its

product overseas, some issues have risen within departments especially among the production, sales, purchasing, logistic, and inventory department.

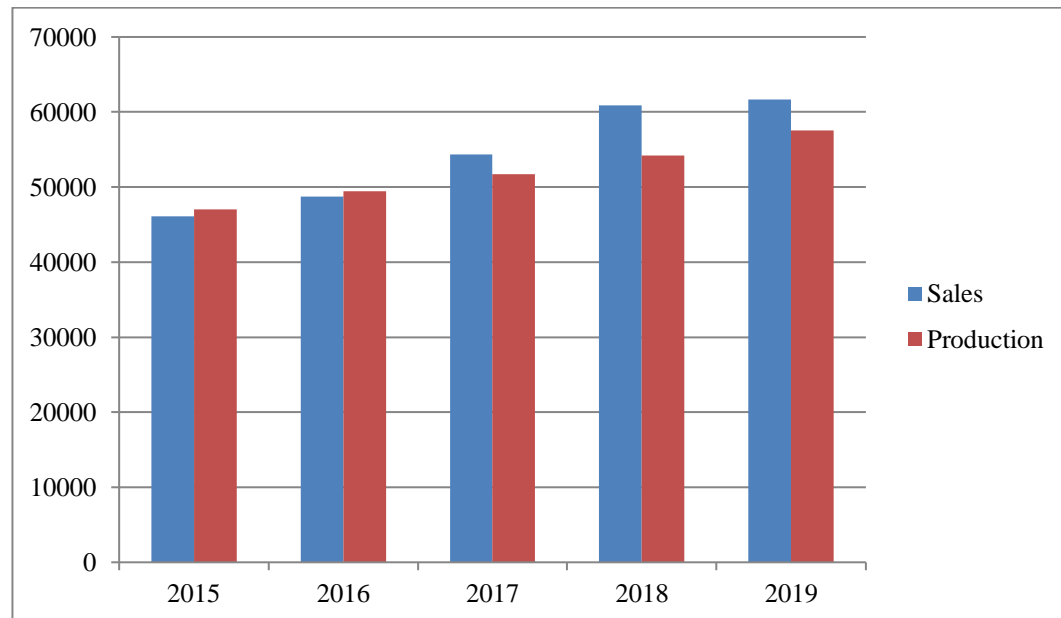


Figure 1.2 PT Makmur Andalan Sawit Palm Oil Production and Sales (in MT)

Source: Prepared by PT MakmurAndalanSawit (2020)

The data in figure 1.2 above display about the total of yearly production and sales quantity of PT Makmur Andalan Sawit during the year of 2015 until 2019. During 2015 - 2016 when PT Makmur Andalan Sawit is still operating domestically, the production and sales were equal which means the production quantity are covering the sales demand quantity very well. In 2017, PT Makmur Andalan Sawit has decided to export their product to overseas, production quantity seems to be left behind the sales demand quantity which still can be considered as the adjustment to the new market situation.

Continuously in 2018, the production quantities still fell behind compared to the sales demand which means it cannot cover the sales demand that had been accepted by the firm. Furthermore in 2019, in order to adjust to the previous year

production situation, PT Makmur Andalan Sawit tended to have a slow respond to sales demand. In contrast, the production quantities could not even support the sales volume which still happened to be in excessive conditions. It is suspected that there is a lacking in internal coordination/integration between supply chain partners in their operational activities, including uncoordinated information and a bad supply chain systems among the sales, purchasing, production, inventory, and logistics department in PT Makmur Andalan Sawit, which implicate to the decreasing firm performance level.

Considering the situation and problem that is happening, PT Makmur Andalan Sawit definitely has to integrate their supply chain in a decent way, in order to maintain and improve their performance into a better level and survives in the international market. The integration of their supply chain is predicted will give effect on the firm performance while the firm performance is discovered to have significant connections to firm's profitability and growth rate. For that reason, through this research the author intended to find **“The Effect of Supply Chain Integration on Firm Performance at PT Makmur Andalan Sawit in Medan”**.

1.2 Problem Limitation

Due to the limitation of time, budget and resources, this research study are limited only about “Supply Chain Integration” effect on “Firm Performance” at PT Makmur Andalan Sawit in Medan. This research study will only examine about the supply chain internal integration effect on firm performance, limited

only to the production, sales, purchasing, logistic, and inventory department at the headquarter office in Medan and as well at the palm oil mill in Riau. Supply chain integration indicators that would be examined are limited into material/goods movement, planning & controlling, organization, and information flow (Anatan & Ellitan, 2018). Meanwhile, the firm performance's indicators according to Civelek et al. (2015) that would be examined are limited into size, sales, efficiency, and effectiveness.

1.3 Problem Formulation

In this research study, the problems that will be examined are :

- a) How is the supply chain integration at PT Makmur Andalan Sawit in Medan?
- b) How is the firm performance at PT Makmur Andalan Sawit in Medan?
- c) Does the supply chain integration has effect on firm performance at PT Makmur Andalan Sawit in Medan?

1.4 Objective of the Research

The objectives of this research study that the author expected to aim are :

- a) To identify the supply chain integration at PT Makmur Andalan Sawit in Medan.
- b) To identify the firm performance at PT Makmur Andalan Sawit in Medan.

- c) To identify whether there is effect of supply chain integration on firm performance at PT Makmur Andalan Sawit in Medan.

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

This research study is expected to contribute and develop more about the “Supply Chain Integration” and the “Firm Performance” theory. This study is also looking forward to be useful in a theoretical way for other parties who encounter the same problematic topic.

1.5.2 Practical Benefit

a) For Firm

The author expects this research study to be capable to help PT Makmur Andalan Sawit in improving and evolving their performance into a better level, to be able to compete and survive in the global economy market, by integrating their supply chain management systems within departments.

b) For Other Parties/Researchers

The author also expects this research study to be able to be used as references, to give and provide more information, especially about “the effect of supply chain integration on firm performance” in agricultural businesses (palm oil) for other parties/researchers.

c) For Author

This research study is also expected to able to offer a broader knowledge about the supply chain integration and its effect on firm performance for the author. Through this research study, the author is supposed to have a better understanding which predicted will help the author in bringing it into a real work practice and gain the benefits in the future.

