

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Business around the construction industry is growing rapidly along with the growing economy. The construction industry sector has become a business sector with a high degree of complexity because within it there are various interrelated parties in the success of the construction project being implemented. In achieving the main goals of the company, the most important of its success is the company's operational performance including the company's operational planning, organizing all of the company's resources in its implementation and controlling the operational of the company itself. Basically, the company's main goal is to maximize profits, maximize company growth and ensure the survival of a company.

Involvement and relationships between parties in the production process will form a supply chain relationship pattern, so a development of management concepts that can manage the supply chain relationships that can produce construction product is needed. Supply chain management in the construction industry is one of the efforts to improve performance. Supply chain management must be effective and efficient because it can provide very high competitiveness to construction companies. The construction supply chain will contribute to the efficiency of a project implementation, so that a construction supply chain has the potential to enable improvements in the construction industry. The improvement

that can be done is through the management relationship to the operational performance involved in a supply chain network (Maddeppungeng, 2018).

The scope of structural work on electrical construction projects has a considerable influence on the smoothness of work, slight errors and delays in structural work can result in less added work and can materially, tools, and manpower significantly. Based on the discussion above, structural work with material resources, tools, and manpower that is the largest of the scope of other work is the scope of work that most influences the performance of the supply chain.

Supply chain management (SCM) is an important factor in companies related to effective supply chain practices in ensuring customer satisfaction and achieving competitive edge. SCM involves a series of value added processes that need to be tightly integrated, not just across organizational boundaries. To be integrated, processes need to be built specifically and managed systematically so that information can flow and be used in and across them (Schroeder et al., 2016). Operation Performance means the extent to which the operation reaches its objectives (Slack et al., 2017). Operational performance includes issues related to organizational performance, such as its activities, products and services, and the use of each resource used by the company like the maximum use of it to achieve profit or achieve the vision and mission.

Supply chain itself is a concept whose initial development came from the manufacturing industry. The construction industry adopts this concept to achieve

quality, time and cost efficiency which can ultimately increase productivity in the implementation of construction work.

The application of the supply chain in the construction sector has a major effect on improving project performance. With the right shape pattern for the supply chain, it is expected that each supply chain actor will be able to make a major contribution to the efficiency and productivity of the implementation of its activities so that it can help the construction service industry which is experiencing a very fierce level of competition.

There are many actors in the construction project, which can be distinguished as service users and providers, such as owners, consultants, contractors, sub-contractors and suppliers. In applying the supply chain management, it is necessary to pay attention to the existing problems. With the presence of experts in this field it will be able to understand the supply chain management as the key of solving the problems related to product delivery to end users.

According to Nakano (2017), Operational performance is closely related to supply chain management. Operational performance is used as a basis for assessing success and failure in supply chain management. If other aspects, such as research and development and brand design fixed, the initiative of the management of the supply chain indirectly affects the performance of the company. To achieve good operational performance, industrial SMEs must work hard to achieve this through planning in supply by creating good management

with suppliers to achieve a clear and efficient supply chain (Feeney et al. (2005) in cited in Alcaraz et al. 2019).

PT. Sinar Lestari Utama as the research object of this research is a national company that engages in Electrical Contractor services where they build medium voltage electricity networks or underground cable networks for housing, real estate, buildings, both government and non-government. This company is also engaged in heavy equipment rental. In doing business, the company also deals with several countries in importing the machineries needed from suppliers abroad such as the Netherlands.

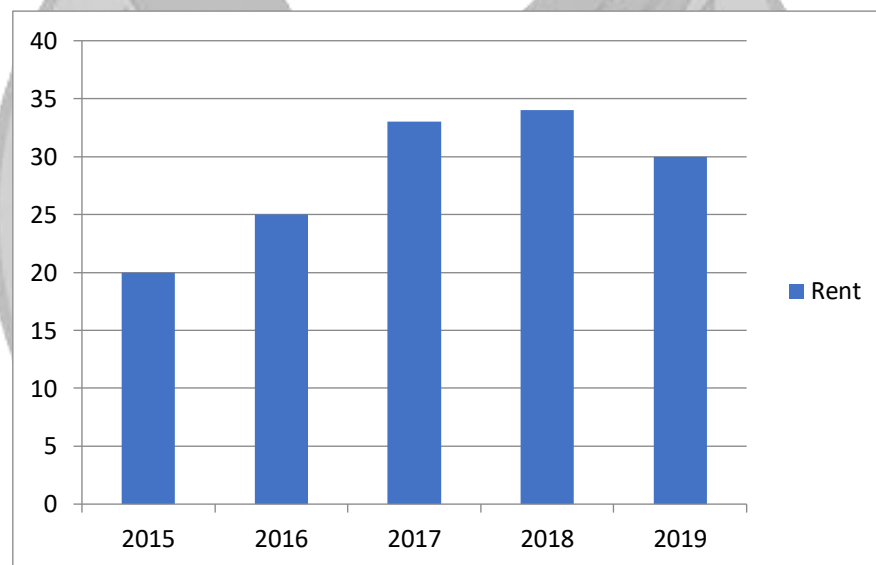


Figure 1.1 PT Sinar Lestari Utama Rental

Source: Prepared by PT Sinar Lestari Utama (2020)

The data in the figure 1.1 above shows that the total rentals from the year of 2015 to 2019, has shown a little declining in total rentals. In 2015, the total rental were 20 units of the machines. However in 2016, the rental reached 25 units of machines, the total rental of machines in 2017 were 33 units, in 2018 it reached

a total rental of 34 units and in 2019 there was a decline in machine rentals to 30 units.

In 2017, machine rentals increased quite rapidly compared to the previous year. But in 2019, the company seemed to experience a decline in machine rentals. It is estimated that there is a lack of coordination between supply chain partners in their operational activities, including delays in the incoming supply chain due to one thing or another that can hinder the accuracy of shipping goods and reduce customer trust in the company and lack of communication with customers at PT Sinar Lestari Utama, which impact on reducing the level of operational performance.

Considering the problems and situations that occur amid intense business competition, company is required to create opportunities to be superior to their competitors. In order to maintain trust and enhance the competitiveness of the company, PT Sinar Lestari Utama must improve services to customers by correcting problems that occur related to leasing. Company must also improve services by distributing information evenly about the products offered so that it is superior to the eyes of customers.

The writer believes that in doing its business, PT. Sinar Lestari Utama will be faced with the supply chain challenges as managing the supply chain of goods and services that include outsourcing of materials and services, logistics services (warehouse, toolhouse, custom clearance). The activity of the supply chain at PT. Sinar Lestari Utama is a strategic main activity where approximately 70 - 80% of

the budget allocated in the company's work plan activities is the supply chain activities. Supply chain activities also have a significant impact on company profitability because of the value of supply chain activities in the form of procurement of goods and services. Based on this, the supply chain performance evaluation marks a very important thing.

From this background, the writer is interested in conducting research with the title **“The Effect of Supply Chain Management towards Operational Performance at PT. Sinar Lestari Utama in Medan”**

1.2 Problem Limitation

This research will be limited to only one organization, namely PT. Sinar Lestari Utama. Hence, the research will be also limited to the certain place, particularly branch office in Medan and the headquarter in Aceh, Indonesia. This *skripsi* will focus on the supply chain management that may effect operational performance. The indicator for Supply Chain Management are: customer relationship, information quality and information technology (Slack and Lewis, 2017). The indicator for Operational Performance are: speed, dependability, flexibility and cost (Kumar and Kushwaha, 2018). Some other limitation includes the validity of the data that are received from the respondents as some of the data may be filled unwillingly as a result of the limited time that they have.

1.3 Problem Formulation

Analyzing how supply chain management effects the operational performance at PT. Sinar Lestari Utama is the intention of the research, this research attempts to answer the following questions:

1. How is the supply chain management toward to PT. Sinar Lestari Utama?
2. How is operational performance toward to PT. Sinar Lestari Utama?
3. How is the supply chain management have effect on operational performance at PT. Sinar Lestari Utama?

1.4 Objective of the Research

This research aims to:

1. To analyze the effect of supply chain management in PT. Sinar Lestari Utama
2. To analyze the effect of operational performance in PT. Sinar Lestari Utama
3. To analyze whether supply chain management have effect on operational performance in PT. Sinar Lestari Utama

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

Theoretically, the results of this research are expected to become a useful reference for the other researchers who need the data for their further researches regarding the Supply Chain Management in Indonesia.

1.5.2 Practical Benefit

The writer sincerely hopes that this research can provide benefits and contribute as well:

1. For Writer

To further add insight and experience of the author in order to develop, share knowledge and also be able to apply the theory in accordance with the practices that occur in the field as obtained during the author's lecture at the Faculty of Management, Pelita Harapan University.

2. For Company

As an evaluation material regarding problems and obstacles in the Supply Chain Management that run by the company.

3. For Researcher

The result of this research is expected to provide additional knowledge for the researcher as well as the guideline and reference for researchers in doing further analysis related to the topic of this project.

