

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Nowadays, manufacturing business is becoming more competitive since numerous parties penetrate this business and the significant development and innovation of new technology which allow businesspeople to carry out low cost and massive production. Moreover, in this globalization era, business is being internationalized as companies at present time can easily sell their products across countries without any significant obstacle. Hence, in international business, company should add non-price value to have a good firm performance.

Firm performance is connected to the organizational outcomes which describe how well the result made by the operations of functions inside a company, in which might be including the performance of production division, administration and finance department, and every employee in the firm. In the business nowadays, analyzing corporate performance is important as companies can evaluate their operations effectiveness of running the business and assess whether they were competitive enough.

In order to cope with the tight rivalry in business, being a company which has strong competitive advantage is a must for a company for being survived. As at the present time competition is not only about price but also quality, companies must focus more on their quality management in order to perform the best business processes of providing goods to their customers, in which may result in making the companies more attractive to customers and win the business competition.

Quality management refers to the involvement of all actions which needed to make plans of delivering good quality and satisfying customers (Nanda, 2016). Quality management is very essential as it makes sure that continuous improvement of quality exist well. Quality management involve every stakeholder inside a company, from the

highest to the lowest management levels, to consistently do their task based on the Standard Operational Procedures (SOP) to maintain and improve quality. Consistency in enhancing quality management through improvement of all stakeholders may lead to the better firm performance.

In this research, the writer intended to find out the relationship of quality management with firm performance, as quality management is mostly done in international companies which try to achieve higher performance in overseas market. According to Ortiz and Garcia (2014), quality management has important role in increasing firm performance. The positive impact of quality management has driven a lot of companies to implement it to the operational processes.

PT Astajaya Nirwighnata or ASTA is a company which main business is petroleum industry equipment manufacturing. The company was established in 1988 in Medan, the city where PT Astajaya Nirwighnata established its production site as well. Quality is the primary concern of the company to still be exist in the market. All major processes in production are carried out in a world class standard granted by American Petroleum Institute (API), the Quality Management System of API Spec. Q-1 and ISO quality standard.

From 2014 to 2017, PT Astajaya Nirwighnata, Medan faced problem about the firm performance of the company. This can be seen from the figure 1.1 below.

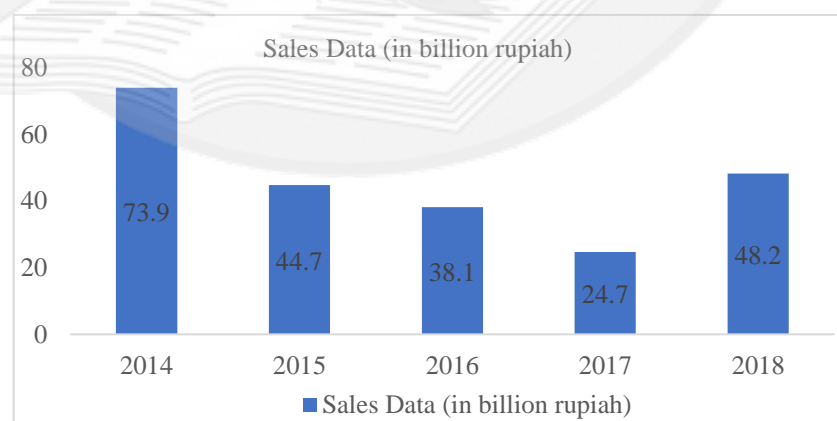


Figure 1.1 Sales Data 2014-2018

Source: PT Astajaya Nirwighnata, Medan

The empirical data is the sales data for five years, which is from 2014 to 2018. From the data, it can be perceived that the sales from the 2014 to 2017 declined sharply. However, the sales in 2018 raised drastically and become the second highest sales in the latest 5 years. The problem was caused by the lack of consistency of quality management implementation in the company. At the earlier year, the company was quite confidence with their performance and the satisfaction of its customers towards the products. Therefore, the management tend to ignore the importance of controlling quality. The top-level managers did not really involve in the operations and let the company run by itself; there was infrequent training done for the employees; there were audits, but it was rarely done; and since the sales was quite good, customer satisfaction survey was not carried out and company did not discover the up-to-date customer's need towards the product.

After that, since the sales was declining 3 years in a row, the company started to realize that quality management was becoming more vital in the competitive market. Then, in 2017, PT Astajaya Nirwighnata, Medan started to focus on consistent implementation of quality management and made it become one of the main concerns of the company. The better implementation of ISO quality standard is one of the examples. Since 2017, the company started to enhance the human resource quality by making job qualification standards to ensure that the people chosen to occupy certain positions have appropriate and adequate capabilities. This process was not done before where position placement was based on the wish of the owner. Besides that, the company has also done supplier selection based on price, goods' quality and condition, service, and timeliness of goods delivery, where previously the suppliers were chosen based on their relationship to the procurement department. Moreover, PT Astajaya Nirwighnata, Medan has set standards and conducted reviews of every unit produced. Products which are not manufactured according to the standards will be repaired. The actions are done to make sure that all items produced have excellent conditions.

Previously, the review was not conducted so that sometimes the products that were delivered to customers would get complaint and rejected. Eventually, together with the marketing promotions, innovations and new customers penetration, implementation of quality management has triggered the sales of the company to achieve its second high in latest five years.

Based on the description above, the writer decided to conduct the research to prove the relationship between implementing quality management with raising the company's business performance, with title: **"The Influence of Quality Management on Firm Performance at PT Astajaya Nirwighnata, Medan"**.

1.2 Problem Limitation

Due to the limitation of time, the writer decided to limit the problem in this research to Quality Management as the independent variable which dimensions are higher management commitment, enhancement in quality procedures, customer focus, and training and development; and its relationship to Firm Performance, which dimensions are financial performance, environmental performance, employee satisfaction, and customer satisfaction, as the dependent variable at PT Astajaya Nirwighnata, Medan. The company has 117 employees, with the composition of 31 employees in back office and the rest 86 employees in the company's factory. Since the factory is sterilized at the operating hours, the writer was not allowed to do survey to the factory's workers. Hence, the writer decided to limit the survey's respondents to 31 employees in the back office. Therefore, the sampling groups in this research are 31 employees as allowed population.

1.3 Problem Formulation

The research questions of this final paper are as follow:

- a. How is the implementation of quality management at PT Astajaya Nirwighnata, Medan?

- b. How good is the firm performance of PT Astajaya Nirwighnata, Medan?
- c. How does quality management influence firm performance in PT Astajaya Nirwighnata, Medan?

1.4 Objective of the Research

The objective of the research are as follows:

- a. To identify how Quality Management is implemented at PT Astajaya Nirwighnata, Medan.
- b. To find out how well the Firm Performance is at PT Astajaya Nirwighnata, Medan.
- c. To investigate the influence of Quality Management on Firm Performance at PT Astajaya Nirwighnata, Medan

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

The result of this research will benefit in its academic field, especially in understanding the influence of quality management and firm performance. The research can deliver more knowledge or insight about quality management and firm performance, including the relationship between both variables. Moreover, the other researcher who will conduct the same issues can utilize this research as reference.

1.5.2 Practical Benefit

The practical benefits of the research are:

- a. For the writer, the benefit will be developing the writer's knowledge in quality management and firm performance.
- b. For the company, the result of the research will give useful recommendations for a company in improving the firm performance especially by enhancing quality management.
- c. For the other researcher, as reference on any study on similar area.

1.6 System of Writing

In order to create better understanding to the problems inside the research, the writer provide the systems of writing of this final paper, which presents the systematic grouping of the materials into number of chapters as follows:

Chapter I Introduction

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

Chapter II Literature Review and Hypothesis Development

This chapter elaborates about the theoretical background, previous research, hypothesis development, research model, framework of thinking.

Chapter III Research Methodology

This chapter elaborates about the research design, population and sample, data collection model, operational variables definition and measurement, and data analysis method.

Chapter IV Data Analysis and Discussion

This chapter enumerates about the general view of research object, data analysis, descriptive statistic, result of data quality testing, result of hypothesis testing, discussion.

Chapter V Conclusion

This chapter enumerates about the conclusion, implication, recommendation.