

CHAPTER I

INTRODUCTION

1.1. BACKGROUND OF THE STUDY

Nowadays, business climate is complex, with diverse demand from different stakeholders that boost companies' effort to figure out and respond the change to the various challenges such as economic, social and ideological. Globalization has created a challenging on companies to compete. Modern business world has been struggling since 2008 when worldwide recession. This decadency has been very challenging from smaller to greater businesses (Ritamaki, 2017). Furthermore, McKinsey predicted more than two-thirds business would not survive the 25 years that followed (Gupta, 2015). In addition, the rapidly changing competitive of globalization has encouraged companies have to be more competitive than ever and to do better all the time by having an ability to adjust and change to endure in the challenging era. Companies need to have a new set of competencies to ensure their existence and growth in the market (Ritamaki, 2017).

Every change in the market affects how a company operates and performs. Excelling in the face of even more demanding pressures is now "do or die" situation (Filev, 2017). The market changes encourages many businesses have to challenges themselves in order to survive in future and adapt their business consistently to be more competitive. The businesses enterprises have to strive to keep on going in this challenging world. Companies have to improve their efficiency which is touching all the business units, regardless of whether they represent manufacturing or service business. In order to stay ahead of the market changes, organizations have to redesign their strategies and ensure the business would be competent all the time (Ritamaki, 2017).

These conditions are driving force for companies to pursue business excellence. According to Dawei (2011) in Shehadeh et al (2016), the key among aspect of business excellence is operational excellence that strives for enhancement in major operational performance. There are many claims that operational excellence as a method that managers follow to achieve world-class performance level. Building operations capabilities demands commitment from all levels. It can unleash exceptional efficiencies and performance enhancement that relate to a profitability of company (Shehadeh et al, 2015).

In a broad sense, operational excellence is about making continuous improvement to achieve competitive advantage. The focus is on improving of the customer value and ensures the sustainability stated beyond status quo. With operational excellence, companies create efficient systems in which employees focus in fixing problems as soon as it happen. Every employee get involve solving the problems impacting the business process in which they work. Operational excellence is not a new idea; Toyota has turned operational excellence into a strategic weapon. The company strives to achieve operational excellence as a tool to retain a customer and at the same time get a new customer. To achieve this purpose, it requires keep a high level of integration between the strategy, programs, practice, and performance (Shehadeh et al, 2015). As the result, more than 700,000 improvement ideas were submitted by Toyota's employees and over 99% of ideas were implemented (Khalil, 2016).

To achieve operational excellence, companies must deal with the culture. The Business Transformation & Operational Excellence World Summit reported more than 50% of respondents cite that culture is the most critical challenge in achieving operational excellence. The culture is the hardest thing to do and it is the main progress limiter. On the other hand, companies admit that culture play a critical role in supporting performance improvement (BTOES Insight, 2018).

The most powerful element in the Operational Excellence is by engaging the employees and creating a "High Performance Culture". Furthermore,

according to Katzenbach Center Global Culture Survey (2018) in PWC (2018) 65% say culture is more important to performance than company's strategy or operating model. The company should stimulate employees' creativity, empowerment, involvement and loyalty that lead to high efficiency to reach operational excellence (Khalil, 2016). The most popular approach is send a team to where there is a problem, brainstorm, improve the part, and finds another part with a problem. This approach to improvement creates a company culture endlessly seeking out. It is important to talk in terms of business growth and market share to everyone in company. The substance for operational excellence is engaging everyone to get involved in the improvement process. When employees understand how they will contribute to the improvement of company, it will result to the culture of growth (Duggan, 2017).

In Indonesia, PT Astra International TBK not only become an exclusive agent of Toyota but also assembles its product. Astra International diversifies the business into seven segments: automotive, Services, Heavy Equipment and Mining, Agribusiness, Infrastructure and Logistics, Information Technology and Property. At the end of 2017, Astra's business operation runs through 224 subsidiaries and supported by 224,488 employees (Astra).

Astra generated a net profit of Rp 21.67 trillion in 2018. The profit rose 15% from 2017 which amounted to Rp 18.85 trillion. Astra is identical with automotive business because automotive division has become the major contributor to Astra's profits with the net profit of Rp. 8.51 trillion. In 2018, Astra dominate 51% market share in Indonesian automobile industry with brands like Toyota, Daihatsu, Isuzu, Peugeot and BMW (Saleh, 2019). Prijono Sugiarto who serves as CEO of Astra mentions that operational excellence becomes the main key to growth in the challenging era. Besides, he mentions that innovation is compulsory to ensure the sustainability of business. Thus, Astra encourages every individual to become an innovator to reach a good corporate performance (Hendra, 2017).

The following is the market automobile in Indonesia

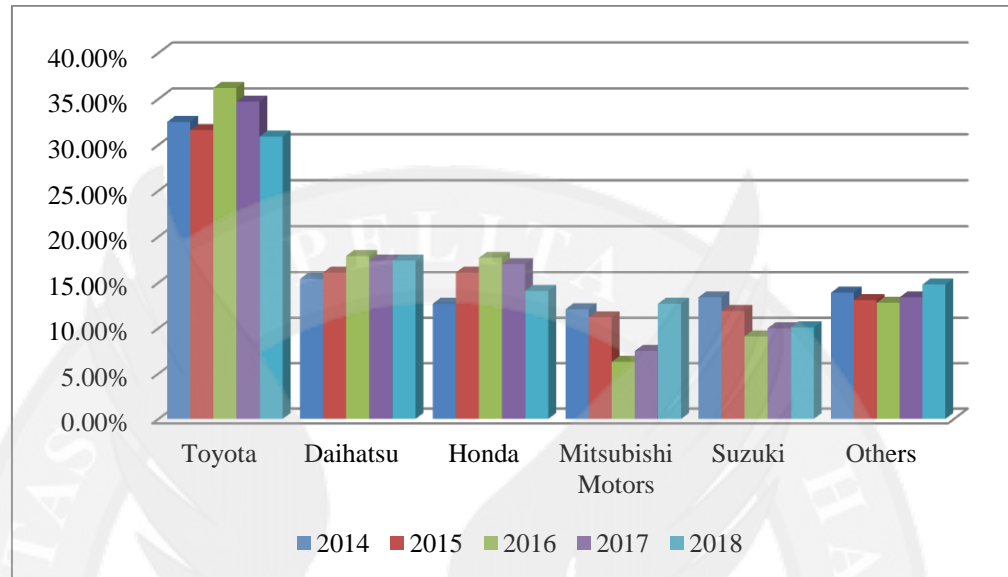


Figure 1.1 Automobile Market Share in Indonesia

Source: Gakindo (2019)

The diagram above represents Toyota becomes a market leader in automobile industry for the 5th year in row, followed by Daihatsu. In addition, Astra has been named top 100 best companies to work in Asia 2018 by HR Asia. HR Asia has cited inspiring words by Aloysius Budi who serves as CHRO of Astra (Asiaone, 2018):

Astra believes that human capital is a biggest part of the company's key sustainability. Astra has a strong commitment to develop its human capital through culture and an integrated people development system, so that its people can adapt with the business needs and growth.

PT Astra International TBK Toyota Sales Operation (Auto 2000) dominates 42% of Toyota's sales in Indonesia. Currently Auto 2000 has 124 outlets in Indonesia. Auto 2000 has 7 outlets in Medan and Auto 2000 Krakatau is the 4th outlet in Medan that was established in 2011 (Auto 2000). On the other hand, Auto 2000 Medan Krakatau has been facing the high turnover of employees especially for sales department. The main reason of this case is the

new employees need a time to have understanding of the culture and many of them feel doesn't fit to the culture. Seeing Astra in making operational excellence as the key to lead the business to become the market leader in automobile industry and having a strong commitment to culture, the writer decide conduct a study with title **“The Impact of Organizational Culture towards Operational Excellence at PT Astra International TBK- Toyota Sales Operation Medan Krakatau.”**

1.2. PROBLEM LIMITATION

Because of limitation of capital, time and budget, this research will focus on organizational culture, as independent variable whose indicators are mission, consistency, involvement and adaptability, and its impact on operational excellence as dependent variable whose indicators are quality, flexibility, employee satisfaction and change. This research will focus on the employees of PT Astra International TBK – Toyota Sales Operation Medan Krakatau includes sales department, administration and finance department and PDS.

1.3. PROBLEM FORMULATION

The following are the research questions in this *skripsi*:

- a. How is the organizational culture at PT Astra International TBK – Toyota Sales Operation Medan Krakatau?
- b. How is the operational excellence at PT Astra International TBK – Toyota Sales Operation Medan Krakatau?
- c. Does organizational have impact on operational excellence at PT Astra International TBK – Toyota Sales Operation Medan Krakatau?

1.4. OBJECTIVE OF THE RESEARCH

The objectives of this research are as follows:

- a. To define about the organizational culture at PT Astra International TBK – Toyota Sales Operation Medan Krakatau.
- b. To elaborate the operational excellence at PT Astra International TBK – Toyota Sales Operation Medan Krakatau.
- c. To investigate whether organizational culture has impacts towards operational excellence at PT Astra International TBK – Toyota Sales Operation Medan Krakatau.

1.5. BENEFITS OF THE RESEARCH

The writer expects that this research can give benefits, both theoretical and practical

1.5.1. Theoretical Benefit

Theoretically, the writer hopes that findings of this research can give benefit academically, especially to enhance the theory about organizational culture and operational excellence.

1.5.2. Practical Benefit

The researcher hopes that the findings of this research can give benefit for the following parties:

- a. For the writer, this research can present further knowledge and experience on organizational culture and operational excellence in real life setting.
- b. For PT Astra International TBK – Toyota Sales Operation Medan Krakatau, this research can provide recommendation to improve organizational culture and operational excellence.

- c. For other researcher, the findings of this research can be used as the reference in other researches in similar area.

1.6. SYSTEMS OF WRITING

In conducting the research, the writer arranges it in order to give a clear guidance in reading and understanding the content of the study. The writer classify into five chapters.

Chapter 1 : Introduction

This chapter provides the background of the study, problem limitation, problem formulation, objective of the research, benefit of the research and systems of writing. This chapter is emphasized on the importance of operational excellence to ensure the growth of organization and its relevance with organizational culture.

Chapter 2 : Literature review and hypothesis development

This chapter includes entrepreneurship, family business, the importance of organizational culture, factors of organizational culture, measurement of organizational culture, operational excellence framework, measurement of operational excellence, continuous improvement, methodology of operational excellence and relationship among organizational culture with operational excellence as the theoretical background. This chapter also consists of hypothesis development and research model. Furthermore, this chapter briefly discuss about previous research and framework of thinking.

Chapter 3 : Research Methodology

This chapter presents of research design especially quantitative research, descriptive study and causal study. This chapter also

discusses about population and sample for this research. Furthermore, this chapter discuss data collection method involves primary data and secondary data; and briefly discuss about operational variable and develop the variable measurement with aim to create a questionnaire of this research. Moreover, this chapter discuss about data analysis method of this research involves descriptive analysis, validity test, reliability test, normality test, linearity test, correlation test, determination test, simple regression analysis and hypothesis z test.

Chapter 4 : Data Analysis and Discussion

This chapter highlights on the general view of “PT Astra International Tbk”, data analysis, descriptive statistic, result of data quality testing and discussion. This chapter briefly explains on general view of PT Astra International TBK Besides, this chapter emphasize on the findings of the questionnaire data. Moreover, this chapter includes the explanation of the findings in supporting the existing theory and previous research.

Chapter 5 : Conclusion

The final chapter explains the conclusion of the finding about the impact of organizational culture at PT Astra International TBK – Toyota Sales Operation Medan Krakatau. Besides, the implication on theory and practical are also stated in this chapter. At the end, the writer provides recommendation for company and the other researcher.