

# CHAPTER I

## INTRODUCTION

### 1.1. BACKGROUND OF THE STUDY

Nowadays, business competition is very tight in any industries. It is the fact that, every year, the level of challenges for businesses are getting harder. This is because their tasks to survive are more demanding than before. The entrants of new companies will be the threat for any incumbent or existing companies. Moreover, the development of technology will replace human position in their jobs for cost-saving. In this paper, entrepreneurial concern will be focused on family business company that has already remained in the industry for quite long (over 10 years). The reason to do this research in this company is to know what the management thinks about being innovative in nowadays business.

Based on the OECD Oslo perspective, the most important factor for a company is how much knowledge about innovation that they have in order to exploit new resources. Other factors that are essential in Innovation capabilities, include technological equipment that is the key of learning processes, which in turn will affect effectiveness, cost control, and time-saving. In other words, Knowledge about innovation capabilities and the firm's efforts to improve are the key to understanding the company's present and future performance [OECD 05, p. 160].

Innovation is therefore considered as a strategic approach of core renewal based on the intellectual, knowledge, expertise of an organization, which must be consistent with their vision and missions. In other words, innovativeness is the key to break through the windows to seek more opportunities and possibilities, to drive out their challenges, and to build more connection and interactions for new market. (Shaver, 2014)

PT. Grafika Nusantara is a family business which has been operating as a printing company. Based on the preliminary interview with

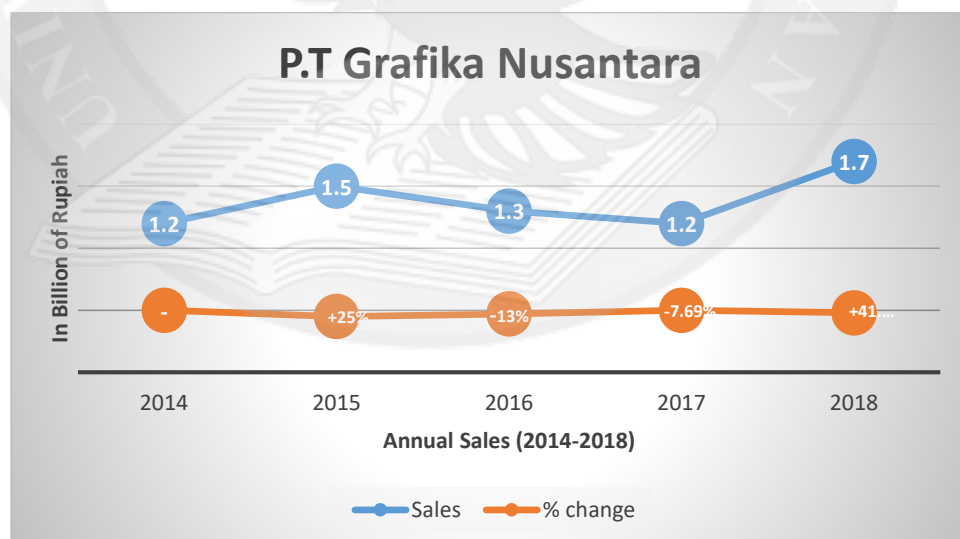
the owner, PT. Grafika Nusantara aims to improve its sales performance. To have a great performance, it is important to be innovative in managing their marketing and selling of existing products. The owner claimed: “It is important as a businessman to know the right market and price; how it is supposed to be distributed; where to find the right customer will then become loyal; how to negotiate regarding the price of raw materials with the suppliers. It is not as easy as what people see and think. It is not only about printing paper and sell to people”. (Robin Zheng, 2019)

The following is the rough data of the company’s annual sales performance from year 2013 to 2018:

**Table 1.1. Annual Sales of PT. Grafika Nusantara (Year 2014 – 2018)**

Year	Sales	% Change
2014	Rp. 1.200.000.000	-
2015	Rp. 1.500.000.000	+25%
2016	Rp. 1.300.000.000	-13%
2017	Rp. 1.200.000.000	-7.69%
2018	Rp.1.700.000.000	+41.6%

Source: Prepared by the Writer (PT. Grafika Nusantara, 2019)



**Figure 1.1. Annual Sales of PT. Grafika Nusantara (Year 2014 – 2018)**

Source: Prepared by the Writer (P.T. Grafika Nusantara, 2019).

The table shows the annual sales performance as provided by PT. Grafika Nusantara. Among 5 years of sales performance (2014-2018), there was a significant rise from year 2014 to year 2015 by 25%, while suddenly declined by 13% in 2016 and followed by a decrease by 7.69% in 2017. The owner claimed that he discovered the problem to be the slow follow up with their customers and the outdated equipment used in producing their goods. At the end of 2017, the company's sales reached to 1.7 billion rupiah, which is a massive increase by 41.6% and is the highest record of sales in the company for those 5 years performance.

The fluctuation of sales performance in this company is caused by the innovativeness of the management in production and selling, for which the owner claimed that they had used high-tech machines to boost their production performance to fulfill their customers' demand. By this phenomenon, the company shows how they innovatively developed their sales performance throughout the years, especially from 2017 to 2018.

In this paper, the writer is interested to discover whether innovation contributes to the company's performance through this research entitled **“The impact of Innovation on Organizational Performance at P.T. Grafika Nusantara Medan”**.

## **1.2. PROBLEM LIMITATION**

Due to limitation of time and budget, the scope of this research is limited to analyzing the impact of innovation as independent variable, whose indicators are Product Innovation, Process Innovation, Sales Innovation, towards the organizational performance as the dependent variable, whose indicators are Production Performance, Market Performance, Finance Performance. This study will be conducted at P.T. Grafika Nusantara.

### **1.3. PROBLEM FORMULATION**

In order to describe more about the management of P.T. Grafika Nusantara, the writer will formulate some questions to be answered by this research. The research questions are as follows:

- a. How is the innovation being applied at P.T. Grafika Nusantara?
- b. How is the organizational performance of P.T. Grafika Nusantara?
- c. Does innovation have impact on organizational performance at P.T. Grafika Nusantara?

### **1.4. RESEARCH OBJECTIVES**

The objectives of this research are as follows:

- a. To describe about the innovation being applied at P.T. Grafika Nusantara.
- b. To evaluate the performance of P.T. Grafika Nusantara.
- c. To analyze whether innovation has impact on organizational performance at P.T. Grafika Nusantara.

### **1.5. BENEFITS OF RESEARCH**

There are 2 types of benefits that are provided by this research as follows:

#### **1.5.1 Theoretical Benefit**

The findings of this research are expected to contribute on finding new insights and developing theories, especially about innovation and its impacts on organizational performance.

#### **1.5.2 Practical Benefit**

- a. For the writer, this research will give much experience in exploring, evaluating, and learning more about innovation directly through a research at a company.
- b. For the company, this research will provide some recommendations to improve their sales performance through analyses on the data obtained at the company.

- c. For other researchers, the findings of this research can be used as reference for other studies with similar topics.

## **1.6. SYSTEM OF WRITING**

There are five chapters whose description is as follows:

### **Chapter I – Introduction**

This chapter is the first part in this report, in which the writer describes and explains about the background of study by the title “The Impact of Innovation on Organizational Performance at P.T. Grafika Nusantara Medan”. The things to discuss from the title in this chapter include problem limitation, problem formulation, objective of research, benefits of research including theoretical benefit and practical benefit, and the systems of writing.

### **Chapter II – Literature Review and Hypothesis Development**

This chapter contains the theoretical background of the title, which is the definition of innovation, types of innovation, including the definition of product innovation, process innovation, sales innovation, definition of organizational performance, which is followed by the definition of production performance, market performance, and finance performance. Moreover, there is discussion on the relationship between innovation and organizational performance, research model, and framework of thinking.

### **Chapter III – Research Methodology**

This chapter describes about quantitative method of the research, including the research design, population and sample, data collection method, operational variable and variable measurement as well as data analysis method.

#### **Chapter IV – Data Analysis and Discussion**

This chapter describes general description about the Printing Company, which include the company's history, vision and mission, core value, organizational structure and employees' job description at P.T. Grafika Nusantara. There will also be data analysis using descriptive statistics, result of data quality testing, and result of hypothesis testing and discussion.

#### **Chapter V – Conclusion**

In this chapter, there will be a brief conclusion about the results of the research, the implication and the recommendations or suggestion for future improvement.

