

CHAPTER I

INTRODUCTION

This chapter contains the background of the research, problem formulation, objective of the research, research scopes, and outline of the final project report.

1.1 Background

Nowadays, the intense competition between one company and another company is increasingly developing. Customers are becoming smart in choosing their products and the customers want products that are cheap but have a good quality. Therefore, the company must prepare to face the current market situation, which requires improving company competitiveness, efficiency, and always continuing to create innovations with their products if the company wants to survive in the current market situation (Fitrianto et al., 2016).

Small and Medium-sized Enterprise (SME) is an economic activity that transforms basic item mechanically, chemically, or traditionally in such a way so that it becomes finished products or semi-finished products or goods that have higher value and are intended for the end-user or the consumer. Small and Medium-sized Enterprise (SME) in the industrial sector has a strategic role in promoting economic growth, such as increasing added value, absorbing labor, and increasing foreign exchange (Supriyadi et al., 2017).

Many types of Small and Medium-sized Enterprises (SMEs) have developed in Padang, and each of SME business sector is different. The business sector by SME in Padang, **Figure 1.1** shows one of the most competitive business sectors in Padang is the food processing industry with a total number of 1118 SMEs.



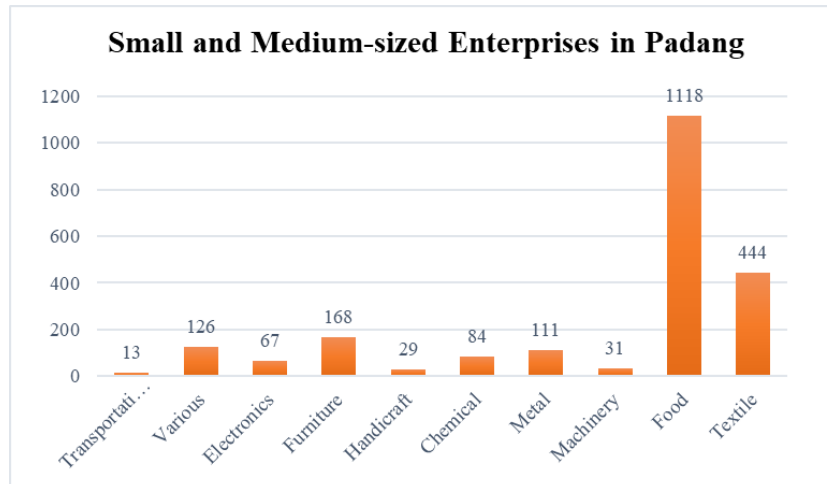


Figure 1.1 Number of Small and Medium-sized Enterprises in Padang
(Source: Dinas Tenaga Kerja dan Perindustrian Padang)

As a human, we will not be separated from food, so it's not surprising that the food processing industry is the most competitive and very profitable business sector, since the food processing industry is a sector that can survive economic shocks because the need for food from year to year has increased very rapidly along with population growth. Based on the BPS census in 2018, Padang had a population of 939,112 people with a population growth rate of 1.28% from 2017, which was 927,168 people (BPS of Padang City, 2020). This population growth and the high level of consumer consumption in Padang are huge opportunities for the food processing industry business to develop in Padang

In Padang, the food processing industry contributed 15.41 percent to the Gross Regional Domestic Product (GRDP) in 2015. This contribution continues to decline from 2015, with 14.90 percent in 2016, 14.37 percent in 2017, 13.15 percent in 2018, and 11.74 percent in 2019. While the growth of the food processing industry in Padang also tends to decline, with the highest growth was 3.47 percent in 2017 then a declining to -0.80 in 2018 and -3.25 percent in 2019 (BPS of Padang, 2020). The contribution and growth rate of the food processing industry of Padang can be seen in **Figure 1.2**

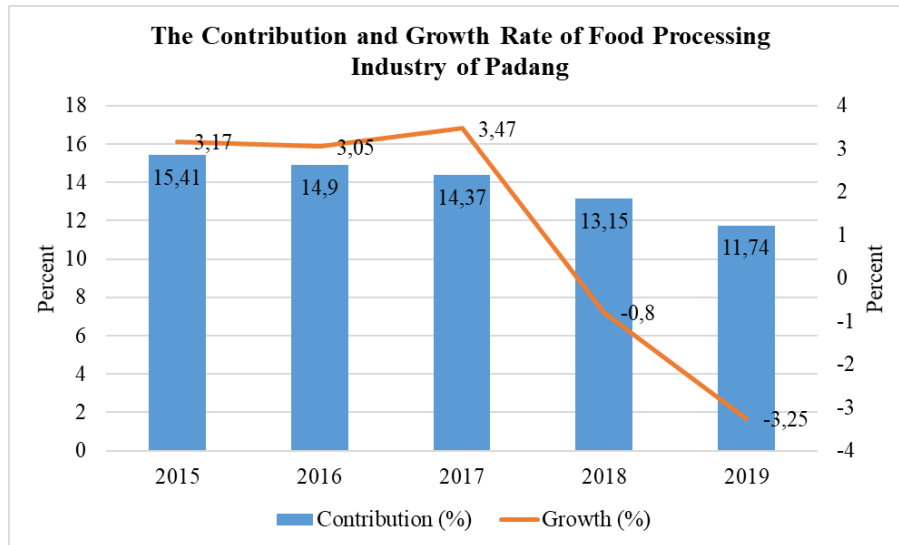


Figure 1.2 Contribution and Growth Rate of Food Processing Industry of Padang
(Source: Padangkota.bps.go.id)

One of the food processing industry sectors in Padang is the bakery industry, according to Astawan dan Iswanti (2012) the bakery industry processes the production of wheat flour, sugar, eggs, powdered milk, liquid milk, butter, yeast, and salt into added-value products and ready for consumption with good nutritional content quality. The nutritional content of bread is greater than rice and noodles for every 100 grams of nutrients. Asih (2012) stated that along with today's busy lifestyles and people's awareness of the importance of nutritious and healthy food, bread is the right alternative food and has good nutritional content. Currently, bread is one of the most desirable food of Indonesian people other than rice, from children to adults. The rising demand for bread makes the bakery industry also grow rapidly and has promising business potential.

Based on the data from the Dinas Tenaga Kerja dan Perindustrian (Disnakerin) of Padang there are 86 existing small and medium-sized bakery industries in Padang. In line with the increasing growth of the bakery industry, this sector is being run by more and more business players, which results in tighter competition.

Another problem is the existence of similar bakery industry competitors who already have a brand in Padang. Based on a survey conducted by Top Brand, the intense competition can be seen among several business players who already have the brand, such as Sari Roti, Bread Talk, Holland Bakery, and many more (Rahmawaty, 2014).

Therefore, one of the strategies that can be applied to ensure the small and medium-sized bakery industries in Padang are able to compete globally and survive in the market is by implementing Supply Chain Management (SCM). Supply chains are all stages involved in meeting the needs of the customer including factories, suppliers, transportation operators, warehouses, retail, and customers, directly and indirectly (Chopra, 2010).

Pujawan in Ansori (2017) explained the important involvement and cooperation of all parties, from suppliers, manufacturers, distributors, retailers, to customers in creating quality, short time, and inexpensive products that gave the idea to the concept of supply chain management. Mayasari (2008) stated that the company needs an effective strategy and plan a supply chain management to achieve the goals in improving company performance so that the company can survive the competition and threats in the current market situation.

The relationship between suppliers and producers must be stable and sustained because companies rely on suppliers in the long term since both large and small companies are still involved in logistical activities. For this reason, a well-organized supply chain is needed to increase competitive advantage over the products produced and improve company performance. An effective SCM has the potential to become a good strategy to enhance company performance because nowadays competition it's not between the companies but between their supply chain management used by the company or networked supply chain competition (Li, 2006).



Supply chain management will not be successfully implemented if it is not connected to company performance, and it is critical for the effective supply chain management. Effective collaboration with suppliers, retailers and customers is needed to smooth the supply chain process for improving company performance and it is a continuous process (Domier, 1998).

According to Saputra & Fithri (2012) most companies do not have a comprehensive understanding of supply chain management. Lack of accuracy in company performance management is related to the lack of understanding of the supply chain management system itself, making it difficult for the company to make changes and improvements.

Despite there are evidence regarding company performance improvements related to the SCM variables, but relatively few empirical studies exist to measure the SCM program's results in the extent of company performance, especially in Padang. Whereas others researchers have perhaps known or described them only implicitly. There are studies which suggest that SCM improves company performance but, with few exceptions, and rarely support it with statistical evidence. This research is seeking to fill this gap in the literature by examining the effect of supply chain management on company performance in content of Padang SME bakery industry by using Structural Equation Modeling (SEM) method. Therefore, it is necessary to research on the effect of supply chain management on company performance in the small and medium-sized bakery industry in Padangz.



1.2 Problem Formulation

Based on the background description, the problem formulation of this research is how is the effect of supply chain management on company performance in the small and medium-sized bakery industry in Padang

1.3 Research Objective

The objective of this research based on the problem formulation is to determine the effect of supply chain management on company performance in the small and medium-sized bakery industry in Padang.

1.4 Research Scopes

The scopes in this research are as follows:

1. Independent variables for supply chain management used are Strategic Supplier Partnership, Customer Relationship and Information Sharing.
2. Dependent variables for Company Performance used are Financial Performance and Operational Performance variables.
3. The research sample obtained is from the total of SMEs bakery industries in Padang



1.5 Outline of Final Project Report

This part contains the systematic writing of the final project report which are as follows:

CHAPTER I INTRODUCTION

This chapter contains the background of the research, the problem formulation, the objective of the research, research scopes, and outline of the final project report.

CHAPTER II LITERATURE REVIEW

This chapter contains the theories that related and support the research, consist of supply chain management, company performance, research instrument, and Structural Equation Modeling (SEM).

CHAPTER III RESEARCH METHODOLOGY

This chapter contains the stages of research carried out from the beginning to the end of the research, consist of preliminary study, literature study, problem formulation, research variables, research conceptual framework, research hypothesis, method selection, data collection, questionnaire validation, data processing, discussions and conclusions.

CHAPTER IV DATA COLLECTION AND PROCESSING

This chapter contains the research instrument validation, data collection and processing conducted in the research. The data is processed by outer model, inner model, and hypothesis testing.

CHAPTER V DISCUSSIONS

This chapter contains a discussion of the SEM-PLS model and the effect of Supply Chain Management Variables on Company Performance.

CHAPTER VI CONCLUSIONS

This chapter contains the conclusions and suggestions of the research.



