Performance Improvement In Order To Improve Competitiveness Analysis On Supply Chain Management Integration Strategy Leather Industry In Tanggulangin

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ABSTRACT
Supply Chain Management (SCM) is the over sight of material, information and finances as they move in a process from supplier to manufactures to consumer. Supply Chain Management involves coordinating and integrating these flows and base on Frohlich and Roy Westbrook (2001) there are 5 (five) types of integration: Inward-facing, periphery-facing, supplier-facing, customer-facing and out word facing. The variable of the type of integration are: access to planning systems, sharing production plans, join EDI access / networks, knowledge of inventory mix / levels, packaging customidation, delivery frequencies, common use of third – party logistics, with performance variables: financial perspective, customer perspective serta interval business process perspective. This research was investigated the correlation between the type of integration with the corporate performance in Financial Perspective, Customer Perspective and Internal Business Process Perspective. The data was get from the leather industry on Cluster Tanggulangin Sidoarjo. The result of the research as: There strong correlation between the type of integration quality of integration and industry performance. The benefit of the research is: there is possible to create the model of the correlation between the type of integration, quality of integration and the corporate performance that be able to choose the strategy of Supply Chain Management, to be used as inputs for policy makers to provide coaching and development of the leather industry in Sidoarjo Regency or another places with the same typology.

Key word: Supply Chain Management, type of integration, industrial performance

PREFACE

Rapid technological developments in all areas affecting the availability of goods produced and its selling in the market. Improvement and product innovation is always going to make the goods become obsolete and unmarketable. The emergence of an industry that has rehabilitated could lead to products from these industries are flooding the market both in number and kind of a more diverse and more competitive. Companies competition increase sharply, and more competitive to attract consumers in an effort to maintain its existence in order to stay alive from the buyer's decision, therefore, companies need to change their old paradigm to the new paradigm.

The new paradigm of engaging consumers in their production process, with the intention to grow the organization who are able to establish an ongoing relationship between consumers and industry.

More than a decade ago there was an increase consensus related to the importance of the integration of suppliers, manufacturers and customers. As stated by Carothers and Adam

(1991), Langley and Holcomb (1992), and Shapiro et al (1993) revealed one subject logistics has become a comprehensive topic that is currently spread throughout the values system of the supplier to the customer. Ragatz et al (1997) noted that effective integration of suppliers into the supply chain, the value of the product will be a key factor for some manufacturers to meet the increasing need to maintain its competitiveness. Many theoretical arguments for the integration of operations, closely between the manufacturer with suppliers and customers are from the literature reengineer process. The goal is to create and coordinate the processing without limit throughout the supply chain where the competitors can not fill up easily (Anderson and Katz 1998; Lumus et al 1998) ..

Saunders (1997), Trent and Monezka (1998), shows that there are two forms of relationships that were developed enterprise integration. The first type of integration is the integration and coordination of the future (forward) of the physical delivery flow or suppliers, manufacturers and customers. The second types of integration is coordination of information technology backward and the flow of data from the customer to the supplier (Martin 1992; Trent and Monezka 1998) . Various empirical evidence shows that the higher level of integration with suppliers and customers in the supply chain will be even greater potential returns (Stevens 1989; Lee et al, 1997; Narasimhan and Jayaram, 1998; Lummus et al, 1998; Anderson and Katz, 1998; Hines et al, 1998; Johnson, 1999).

Handfield and Nichols (1999) argues that at this time the manufacturer or the company should not only manage their own organization, but also engage in its management of upstream and downstream enterprises networking. Hake (1999) shows that companies that have traditionally been structured as independent businesses will increase operating configuration in a basic division. Furthermore, the manufacturer or the company with a bow most comprehensive supply chain integration should have improved the highest level of performance.

The leather industry in Tanggulangin - Sidoarjo, is the center of the leather industry with incidentaly supply chain; it means that the relationship between the supplier and the industry has not been built in the form of a permanent chain. The leather industry in Tanggulangin – Sidoarjo is owned by Local Government, that must be maintained in their existence, because it has a strategic function, which is a source of income for the people and the sources of local governments income. Base on the description above, this study focuses on how to design a research strategy of supply chain management (SCM) in coordination with suppliers and the customers with their effect on the performance of the company's leather industry in Tanggulangin – Sidoarjo. The aim of this study is to provide input to policy makers in order to provide guidance and development of leather industry in Sidoarjo.

THE METHOD OF RESEARCH

The operational concept of this research design by using the Arc of Integration Method) through the cooperation of upstream and downstream SCM. Then, will be known the typology of integration position and level of the company.

To know that, the nextsteps that must be taken is preceded by the stage of data collection through questionnaire about SCM using 8 (eight) integrative activity both from the supplier and from customers. The next step is to analyze the data by using factor analysis. From the analysis of these factors will be obtained factor score (FS) both from the supplier and from the customers. Based on this FS distribution, the integration degree of the companies can be determined.

The company performance the company will be able to be measured by using the balance score card (BSC) with using three (3) perspectives: financial perspective, customer perspective and internal business process perspective.

To find out dependencies or to determine whether there is a difference between the influence of typology SCM integration with company performance and the steps is taken to conduct a test dependencies using Analysis of Variance (ANOVA). The result of Anova will be obtained if there are differences in the company's performance, in terms of perceptions of BSC in the various typologies of integration that has been formed and at the same time it will be able to test the hypothesis.

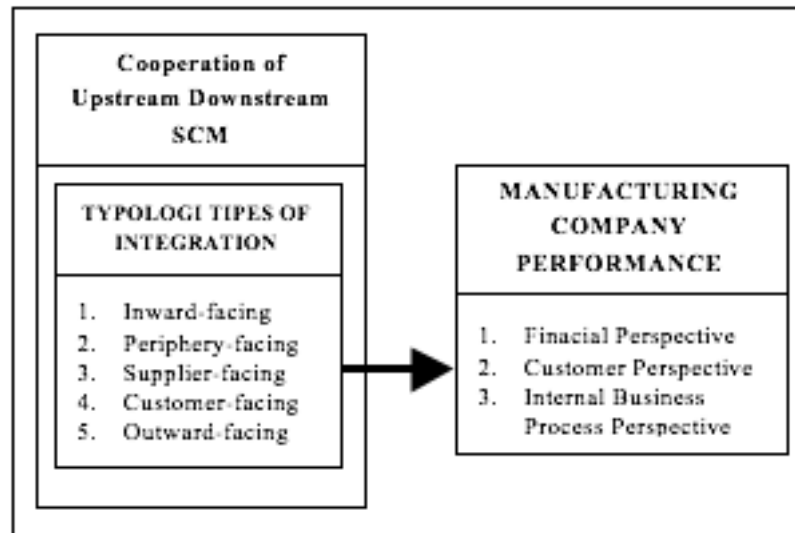The Design of this research can be decribed as follows:

Figure 1. The Framework of Research Design

RESULTS
LEATHER INDUSTRY TANGGULANGIN

There are 264 leather industries in this studies, and devided in three category: Large, Medium and Small. There are 75 members of small industries, 138 members of midlle industries ang 51 members of large industries. Industrial categorization based on the evaluation of the researcher. Small industries put their product in one showroom, midlle industries put the product in many showroom and the large industries make the product in large scale and have their own showroom and also send the product to another many showroom

Identification of Integration Typology

There ara five (5) integration typology: Inward Facing, Periphery Facing, Supplier Facing, Costumer Facing, Outward Facing. The data obtained show that there is a typology groupings as follows:

1. *Inward Facing,* in large industry that agree is only 20%, the medium industry is 0%, and 32% of small industries.
1. *Periphery Facing,* in large industry that agree is only 25%, the medium industry 15%, and small industry 32%.
2. *Supplier Facing,* in large industry that agree is only 6%, medium industry 0%, and small industry 28%.
3. *Costumer Facing,* in large industry that agree is only 10%, medium industry 2%, and small industry 28%.
4. *Outward Facing.* In large industry taht agree is only 95%, medium industry 96%, and small industry 92%.

The typology of the integration of the leather industry in Tanggulangin is outward facing, with a very large dependence on suppliers and customers who have been visiting / shopping in these places (shopping)

Effect of Typology Against Corporate Performance.
From the data above, the only typology outward facing (> 90%) of cultivable performance becouse the other typologies are too small influence

Corporate Performance Measurement.
In accordance with the study design, from four perspectives of the Balanced Scorecard (BSC) taken three perspectives: (1) finacial perspective, (2) customer perspective, (3) internal business perspective; show that there are the difference between large industry, medium, and small.

Financial Perspective:
The return of capital, only large industry that according to the plan (80%), while the medium industry is 15%, and 32% of small industries . There is also on profit and profit increased, and in large industry (85%) but not for the other industries. For medium and small industries need to be arranged the return capital strategy according to plan and profit improvement strategy. The easiest way to imitate on a particularly large industrial capital return strategy and strategy of the company's profit

Customer Perspective:
Especially for the customer perspective, the result is shown in Appendix D. There is the difference between large, medium, and small industry.
1. The big industry dominate the market share is 90%, the level of customer trust is 75%, speed and time of order completion is 100%) and the good image of customers is 85%
2. In medium industry is superior in quality of service (81%). The level of customer satisfaction on service quality is 80%.
3. Small industry is superior in the quality of product (80%).

Thus, the performance improvement can be started with a strategy of openness that allow other companies to imitate the success that has been achieved.

Internal Business Perspective:
According to Kaplan and Norton (1996), this process consists of three stages, namely the Innovation Process, Operation Process, and After Sales Service. The data show that almost all of the industry is weak in the area of internal processes mainly innovation process / product development.

ANALYSIS OF SUPPLY CHAIN PERFORMANCE FACTOR
To improve the performance of supply chain management among suppliers, manufacturing, and customer needs Upstream Supply Chain Management to integrate supplier with manufacturing and downstream Supply Chain Management to integrate the customer with manufactur. Continuous control of eight main activities, namely:
Access to planning system
Sharing production plans
Joint EDI access/ networks
Knowledge of inventory mix/ level
Packaging customization
Delivery frequencies

Comission logistical equipment / containers
Common use of third party logistic

As shown in appendix B, the analysis of large industries, medium, and small, showed different results. Therefore, performance improvement strategy is also different and reserved only for the performance has not been satisfactory, are as follows:

1. Strategi to increase performance by upgrading the systems of industrial planning for small and medium industry
2. Strategies to improve performance by increasing production planning capabilities in the industry especially for medium-sized industry
3. Strategies to improve performance in the form of inventory levels calculation training especially for small industry
4. Strategies in packaging aimed at small industries in order to improve performance
5. Strategies to improve the performance by increasing the frequency of handover is greatly affect the desire of consumers
6. Strategies to improve the performance is mainly aimed at small industries regarding to the importance of logistic supplies
7. The role of third parties in the area of procurement is not important, it is necessary to look for the procurement strategy to improve the performance.

DISCUSSION
The Central of Leather Industries in Tanggulangin Sidoarjo

1. From an analysis of the typology of the integration of the activities of the SCM among Supplier – Customer - Industrial companies in the centre of leather industry at Tanggulangin, Sidoarjo indicated that over 90 % agree that Outward Facing Typology characterized by a very strong integration among suppliers, the leather industry, and customers. Supplier open a grocery store a hardware store, making it easier for industry to buy them. In normal conditions, consumers buy directly in Tanggulangin (shopping)
2. The Analysis of the influence of Integration typology on corporate, is limited to outward facing, since almost no other typology integration of the leather industry in Tanggulangin Sidoarjo
3. Performance improvement is possible, by the supply chain (a-h) and by the three BSC perspective (Financial, Customer, Internal Process)
4. Using the data, it can be arranged SWOT analysis as follows:

Leather Industry at Tanggulangin Sidoarjo is included in large categories:

Description	Factor	Score	Description	Factor	Score
Strength			**Opportunity**		
1. Have access to the planning system	+++	2	2. Production planning designed together	++	2
3. control of inventory levels	+	2	4. Integrated data network	+++	2
			5. Market Control	+++	3
6. Frequency of delivery to customers	+++	3	7. Customers' confidence to product	++	3
			8. The influence of packaging	+++	2
9. Logistic supplies	+++	2	10. The capital retun is planned	++	2
11. Big profit and Acquiincreased	+++	2	12. The customers' satisfaction in quality of services	+	3
13. The new product is advantageous	++	2	14. Custumers buy the product in good quality	+	3
15. Low level in failure product	++	3	16. The customer's satisfaction in short time of delivery	+++	3
17. The wasted of raw matrial is low	+	2	18. Company image	+++	3
19. Production cost within budget	+++	2	20. Customer demand is always fullfilled	+++	3
			21. All the product get warranty	+++	3
			22. The repair and replacement of spare parts in short time	+	3
			23. Responsive to the customers' need	++	2
			24. No wasted matrial polutted the environment	+	3
Weakness			**Threats**		
25. The dependency to supplier is very high	– – –	2	26. supply from thir parties	–	1
1. The dependency to the customer is very high	– – –	3	2. The dissatisfaction of customer	–	3
3. Less inovation in creating products	–	2	1. Acquisition credits payments not on time	– –	2
2. High cost in creating new products	– –	2			
3. Creating new product takes a long time	– –	2			
4. Too many reworking (because there are high number of faliure production)					

Leather Industry at Tanggulangin Sidoarjo is included in medium categories:

Deskripsi	Faktor	Bobot	Deskripsi	Faktor	Bobot
Kekuatan (Strength):			**Peluang (Opportunity):**		
1. Menguasai perhitungan tingkat persediaan	++	2	2. Perencanaan produksi dirancang bersama-sama	++	2
3. Frekwensi penyerahan ke konsumen	++	3	4. Jaringan data yang terintegrasi	+++	2
5. Perlengkapan logistic	+++	2	6. Kemasan sangat mempengaruhi konsumen	++	2
7. Produk baru selalu menguntungkan	+++	2	8. Kepercayaan pelanggan terhadap produk	++	3
9. Tingkat kerusakan produksi rendah	++	3	10. Kepuasan pelanggan terhadap mutu pelayanan	+++	3
11. Bahan baku terbuang (waste) rendah	++	2	12. Kepuasan pelanggan terhadap produk	++	3
13. Biaya produksi sesuai anggaran	+++	2	14. Kepuasan pelanggan terhadap kecepatan dan waktu penyerahan	+++	3
			15. Permintaan pelanggan selalu terpenui	++	2
			16. Setiap produk diberi garansi kerusakan	+++	3
			17. Perbaikan kerusakan dan penggantian suku cadang cepat	+++	3
			18. Perolehan tagihan cicilan lancar	++	3
			19. Kecepatan menanggapi keluhan pelanggan memuaskan	+++	3
			20. Tidak ada limbah berbau	+++	3
Kelemahan (Weakness) :			**Ancaman (Threats)**		
1. Ketergantungan terhadap supplier sangat besar	-	2	1. Supply dari pihak ketiga	--	2
2. Ketergantungan terhadap customer sangat besar	---	3	3. Tidak menguasai pangsa pasar	--	3
			4. Pengembalian modal tidak sesuai rencana	---	2
5. Akses terhadap sistem perencanaan	--	2	6. Pengembalian modal tidak sesuai rencana	---	2
7. Besaran laba dan tingkat pertambahannya	--	2	8. Pelanggan membeli produk bukan karena harga	-	3
9. Kurang inovasi produk baru	---	3	10. Pelanggan membeli produk bukan karena kualitas	-	2
11. Biaya penciptaan produk baru tinggi	---	2	12. Citra perusahaan kurang baik dimata pelanggan	--	3
13. Penciptaan produk baru perlu waktu lama	--	2			

Leather Industry at Tanggulangin Sidoarjo is included in small categories:

Description	Factor	Score	Description	Factor	Score
Strength			**Opportunity**		
1. Aaccess to the planning system	+	2	2. Production planning designed together	+	2
3. The amount of profit and increased	+	2	4. Integrated data network	++	2
5. Market share	+	2	6. The customers' satisfaction in quality of services	+	3
7. Production cost within budget	++	2	8. Customers' satisfaction to product	+	3
			9. Custumers buy the product in good quality	+++	3
2.			10. The customer's satisfaction in short time of delivery	+++	3
3.			11. Comp any image in midle level	+	3
4.			12. Custu mers demand always fulfilled	++	3
5.			13. All the product get warranty	+++	2
6.			14. Resp onsive to the customers' need	+	3
7.			15. No wasted matrial polutted the environment	++	3
Weakness			**Threats**		
16. The dependency to the supplier	– –	2	17. suppl y from thir parties	–	2
1. The dependency to the customer	– –	3	2. The custumers distrust to the product		1
3. Can't predict the level of matrial stock		1	1. Acquisition credits payments not on time	–	2
2. Packaging		1	3. Customer buy product not depend on the price		1
4. Frequency of customers' delivery		1	5. The repair and replacement of spare parts in short time		3
6. Logistic supply	–	2	7. Acquisition of the payments is too slow	–	3
8. Less inovation in creating products	–	2			
9. New Product not profitable		1			
10. High cost in creating new products	–	2			
11. Branding image of new product takes long time	–	2			
12. The failure of product is high		1			
13. Row Matrial is wasted in high quantity	–	2			
14. Reworking (because there are high number of faliure production)	–	2			

Notes:
Factors :
+ = S-O
- = W-T
50 – 60 % = +   = *less important*
61 - 80%   = ++   = *important*
81 – 100% = +++   = *very important*

Weighing:
1 = profitable only for unilateral
2 = profitable for bilateral
3 = profitable for multilateral or to customer.

The proposed strategy to improve the performance are:
1. The creation of a new product strategy for all industries, especially medium and small industries.
2. The product development strategy that produces maturity, especially in medium and small industries.
3. The product development strategy that resulted in lower costs for all industries.

4. The product development strategy which resulted in the acceleration of the creation process of new products for all industries.
5. The strategy to overcome the failure of production mainly in small industrial.
6. The suppress stratety for wasted materials, especially in small industries.
7. The strategies to reduce rework, especially for large and small industries.
8. The strategies to provide a warranty for product damage, especially to the small industry.

The Model of Relationship of the company's performance and the typology of supply chain integration management:
Dalam bentuk tatanan hipotesis ditentukan persamaan yang menghubungkan
In the form of hypothesis is prescribed linking equation:
Y= company performance variable with variable of supply chain integration management typology.
X1= inward - facing arc of integration
X2= periphery – facing arc of integration
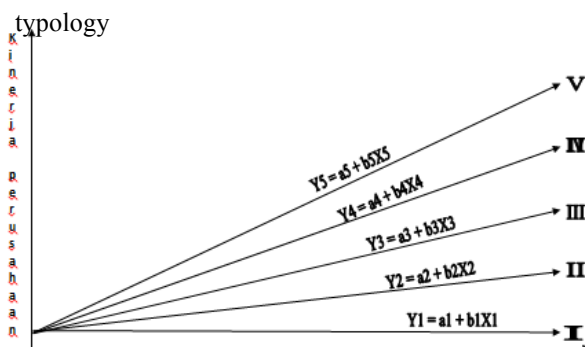X3= suppliers – facing arc of integration
X4= customer – facing arc of integration
X5= outward – facing arc of integration
a= slope of the line Y = a + bx
b= The differentiate of the estimate change value Y over the estimate chage value X

The linear equation connecting the company performance with integration typology

I. The company's performance is in the lowest position because the cooperation between customer and supplier is very low. In this research is found that consumers do not want to come to Tanggul-angin Leather Industry because they fear of Lapindo mud disaster. Although the relationship agreement among the customer, manufacture, and supplier are very high (outward facing arc of integration), but there is the cooperation obstacle makes the the changes of typology that impact on the company's performance. Thus, the equation Y5=a+b5X5 is changed to be Y1=a1+b1X1, because there is the change of X5 to be X1 and the equation changed to be *inward-facing arc of integration* (I) Typology.

II. The company's performance is higher than the condition one (I) but remains low, because of the cooperation among the customer, manufacturing and suppliers are still many obstacles that can not be optimally took away the company's performance. In this research is found that there is an effort to market the leather products out of Tanggulangin. The most buyers comes from tourism. It makes the lower volume in selling. Then, changing market process in unsatisfacton. The suppliers are also very careful in cooperation with the manufactur.
Then, the equation Y= a+b1X1 want to be changed but the performace is still in the equation Y= a+b2X2. X2 is *pherypery-facing arc of integration* (II) Typology.

III. The company's performance is higher than the second performance (II) because the supplier want to raise the performance of that business manufactur. In other hand, the business of the suppliers also increased, because the market is increased too. The equation Y2 = a2 + b2 X 2 is wanted to be Y3 = a3 + b3 X3. It is Supplier Typology – *Facing Arc of Integration* (III).

IV. The company's performance is higher than the third (III) performance, because the relative cooperation among the customer, manufacture and suppliers relatively very closely. The performance can not be optimal because there is the different perception between customer and supplier. In the research, this happened in centre of leather industry in Manding - Yogyakarta because customers are mostly non-shopping tourist, and the natural disaster / earthquake does not significantly affect to the number of sales.

The mainly obctacle of supplier is in supplying raw materials from suppliers, because colors do not match to the taste of consumers, so production in not in optimum condition. But with more creativity and take more time the manufacture can meet the consumer demand.

Then, the equation is Y4=a+b4X4

Customer Typology– Facing Arc of Integration (IV).

V. The company's performance is highest of all typologies of cooperation integration is veru closely among customer, manufactor and suppliers. The company's performance will be optimal, because there is no different perception between supplier, manufactor and customer in order to reach the satisfaction of all parties
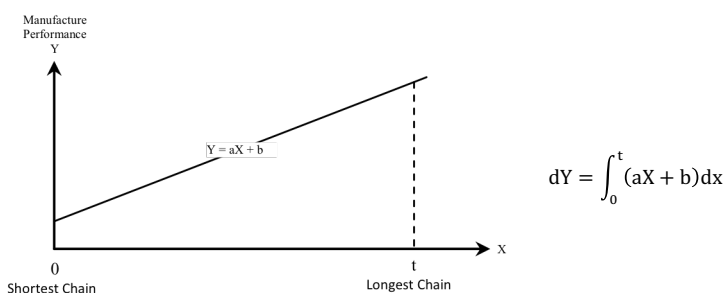
The equation is Y5 = a + b5 X5

X5 = *Outward-Facing Arc of Integration* (V) Typology.

In functional equation of Y = aX + b, where :
Y = company performance
X = the length of the process chain
a = the quality of the process chain relationships / slope

$$dY = \int_{0}^{t} (aX + b)dx$$

The company's performance is a function of the length of the chain (in the other cases referred to the typology of the supply chain) and the quality of the chain

CONCLUSION

Based on the description and explanation in previous chapters then, in this study can be summarized as follows:

1. The identification of the typology of SCM integration in leather industrial centers are as follows:

    1.1. The typology of small industry is not identified

    1.2. Typology of medium indutry is identified as *outward facing* with the low quality of the relationship.

1.3. Typology of large industry is identified as *outward facing* with the qulity of relationship has the higher quality of relationship.

2. There is a difference in the performance of companies that exhibited by companies who practice a different SCM cooperation. The lowest performance shown by the industry that goes on very short chain group (inward facing arc integraty), and the highest performance shown by the industry group that goes a long chain with very high quality relations / strong (facing outward arc integration)

3. Model of cooperation based on the typology of integration in SCM is expressed as a function between the length of the chain of suppliers and the quality of relationships with the company's performance.

4. The research give a strategy that can be used for as a trainning pattern and the development of leather industry by local goverment in Tanggul-angin Sidoarjo or another places with the same leather industri typology in Bojonegoro Regency

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