

CHAPTER I

INTRODUCTION

1.1 Background

Small- and medium-sized enterprises (SMEs) have long been believed to be important in supporting economic development within a country (Indarti, 2016). According to research by AKATIGA, the Center for Micro and Small Enterprise Dynamic (CEMSED), and the Center for Economic and Social Studies (CESS) 2000, SMEs have unique ability to survive and raise performance during economic crisis, because of their flexibility in adapting production process, ability to develop with their own capital, ability to pay high interest loan and only a little get involve with bureaucracy. With this vital position in the economy, the development of SMEs would contribute to economic and social development through economic diversification and accelerated structural changes that promote stable and sustainable long-term economic growth (Padmadinata, 2007). According to Narsa et al. (2012) small and medium enterprise (SME) become one of the important drivers in building the country's economic strength. This can be observed from the advantages that SMEs have, namely: (a) flexible enough and very adaptable to the changes and direction of market, (b) create jobs faster than other business sectors, (c) able to contribute significant amount of export and trade.

According to data from Indonesian Ministry of Industry, the contribution of small and medium business sector to gross domestic product increased in the last five years from 57.84% to 60.34% as of 2016. Labor absorption in this sector also increased, from

96.99% % to 97.22 percent in the same time period. Industrial globalization and the exceedingly competitive world of manufacturing has provided SMEs tremendous opportunities for development and expansion through cost effectiveness and quality enhancement (Tan et al., 2014).

However, many SMEs actually are in vulnerable condition, because they operate in sectors where there are few barriers to new entrants, close substitute products, buyers can easily change to other SMEs, and where they have low bargaining power over their suppliers as shown in Figure 1.1. This scenario puts SMEs in a very precarious position since they must operate in a very reactive response to ever changing circumstances. Further to this, SMEs compared to large organizations have limited resources, and in many cases the leadership lacks the long-term commitment required.

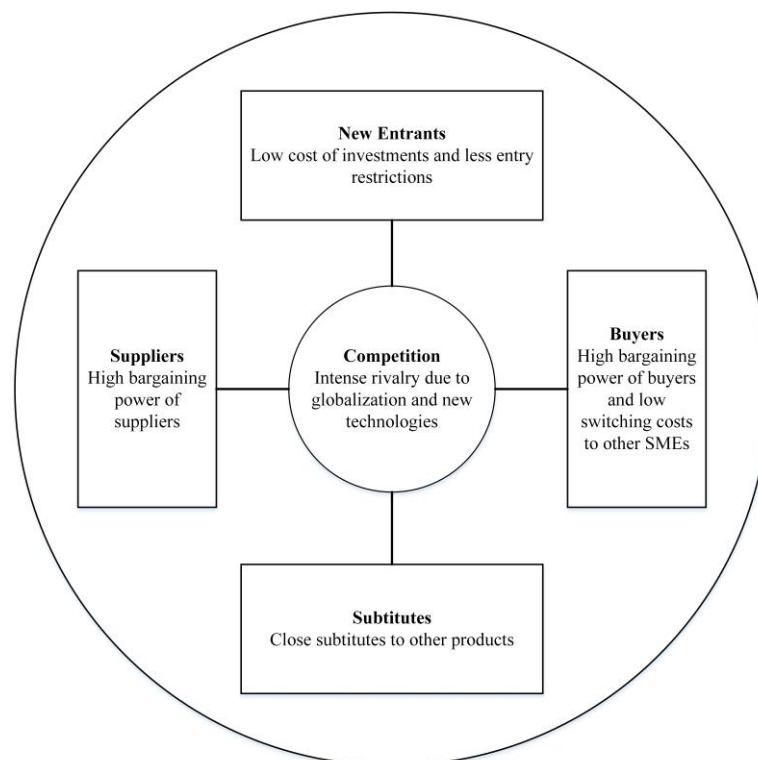


Figure 1.1 Porter's Five Forces

(Source: Porter, 1985)

One type of Small and Medium Enterprises (SMEs) that currently growing is a laundry service business. According to Raharjo the Chairperson of the Indonesian Laundry Employers Association (APLINDO) as cited from Setyorini & Rey (2017) the growth laundry service business in Indonesia is growing along with the growth of tourism, hotel, hospitals, residential areas, and apartments. Changes in lifestyles and demands of busyness, making some people prefer to use laundry services to ease their life. According Nugroho the Chairman of the Indonesian Franchise Association (AFI) laundry services is a business that respond to the change of life style in the society, with the support of technology today, it helps the laundry business. Especially in big city the demand of quick, easy, and cheap laundry service make the market for laundry business never empty (Nurfadilah, 2018). Because all of that above and the small capital that needed to start this business, the attention that laundry service get is growing and will lead to increasing competition.

As sector that contributing significantly to economic growth, innovation, and employment generation that experiencing major impact of globalization where there are rapid technological changes and increased of competitive. SMEs need to upgrade their professional management techniques to achieve economic, social and environmental improvement without large investments or extensive changes (Cherrafi et al., 2016). In this era of competition, companies are looking for methods and tools mainly in order to reduce costs. Several companies, so as to minimize costs, use poor quality materials or they overload personnel with work. They do not see other possibilities for increasing the effectiveness of the enterprise. However, more and more company realize that one of the ways for costs reduction lies in improving production processes (Antosz & Stadnicka, 2017). Therefore, in order to survive in this challenging age, these companies should look forward to improve the existing system and fulfill the customer needs. One of the approaches which are considered best management practice to all industries is lean (Rose et al., 2011).

Lean is an approach that has been used by large corporations for several years. The source of lean can be found in the Toyota Production System (TPS) and it is based on the

principle of eliminating all forms of wasted value within the enterprise. Lean is a production practice that considers that the available resources must be expended only for creating the required value to a product for the end customer, and any amount of over expenditure of these resources otherwise is wasteful, and hence, must be curtailed (Kiran, 2017). Lean has been considered, accepted and widely implemented as one of the strategies to tackle the issues related to waste minimization through non-value adding activity identification and elimination to improve the performance of the organization in three dimensions, namely efficiency, profitability and flexibility (Thanki et al., 2016). Lean has been increasingly recognized as a key improvement concept for all types of organizations to enhance their operations. However, a number of authors have argued that the types of organizations who have firstly embarked on the Lean journey and secondly found success in this have been predominately larger organizations. This provokes the question of Lean's applicability to SMEs, which are commonly recognized as being crucial to the development of economies across the world.

The implementation of lean is one of the best responses to the challenge that will be faced by SMEs, in this case laundry services. However, the adoption of lean in SMEs is not widespread due to the fear of high implementation cost and the subsequent benefits (Cherrafi et al., 2016). Not just implementation of lean in SMEs that not yet popular, according to Cherrafi et al. (2016) that most research that related to lean is addressed in manufacturing sector, and they could not find many researches on lean in service industry. Considering that the implementations of lean in service sector can improve the flow of process, reduced waste, and added value for customers (Radnor et al., 2006). However, it should be noted that there are many differences between the manufacturing sector and the service industry. Especially in the type of waste that happens.

There have been many studies related about implementation of lean in SMEs. For example, a study conducted by Matt & Rauch (2013) analyzed a first step the role and potential of small enterprises (especially in Italy) and showed a preliminary study of the suitability of the existing lean methods for the application in this type organization. The result of this study illustrates the existing hidden potential in small enterprises as well as

a selection of suitable methods for productivity improvements. Study conducted by Almanei et al. (2017) discussed the most prominent lean implementation frameworks under the prism of needs of SMEs, the study concluded that there is no unique roadmap to “leanness”, this needs to be tailored for every different organization.

A study conducted by Zhou (2016) with objective to enhance understanding for lean practice in small and medium-sized enterprises in United State of America. From total of 34 respondent companies which are 29 manufacturing types of industry and only 5 service/distribution types of industry. It is found that the respondent firms were segmented into Lean, Somewhat Lean, and Not Lean, each has about one third of the sample size. This is an important finding which reveals that the current lean practice in SMEs is quite diverse, ranging from advanced adopters to beginners of lean who are involved in sporadic usage of lean tools. This shows that the implementation of lean in small and medium-sized enterprises is not yet commonly being implemented.

Knowing that the adoption of lean in SMEs is not yet widespread and there is lack of researches on addressed issues from service industry. The objective of this study is to investigate what type of waste that experienced in SMEs’ laundry service and its causes by using statistical analysis and coding method. In addition, the most suitable lean methodologies will be selected to solve the problem that happens.

1.2 Problem Formulation

Based on the description in the background above, the problems that come up in the research would be formulated and generate research questions as follows:

1. What waste that happens in SMEs’ laundry service?
2. What are the root causes of the waste that happens in SMEs’ laundry service?
3. Which techniques and tools of lean that suitable to solve the problem in the laundry service SME?

1.3 Objective Research

This paper is created to fulfill several objectives as mentioned as below:

1. Identify the waste that happens in laundry service SME.
2. Identify the root causes of the waste that happens in laundry service SME.
3. Identify which technique and tools that suitable to solve the problem in selected SME.

1.4 Significance of Research

This research can provide benefits for the parties as follows:

1. Laundry Service SME

The result of this study can be used as evaluation and consideration for the SMEs' laundry service in determining which techniques and methods of lean that easily can be implemented in the service sector SME that can solve the problem within the service laundry SME with the resources that SME already have, and encouraging the other SME to start implementing Lean philosophy in their system.

2. Researcher

This study will be a tool for researcher to practice what has been learned during lectures, so the researcher can add insight, knowledge, and experience in the working field.

3. Educational Institution

The results of this study are expected to be an additional reference for future research, especially those who discussing customer satisfaction and can be considered as knowledge guidance in general.

1.5 Scope of Research

There are some limitations that existed in this research, as mentioned as follows:

1. The research only focused on the waste problem in service sector SME.
2. The research will be conducted in laundry service SME in Yogyakarta.
3. Only several lean techniques and methods that used in this research.
4. All the lean methods that conducted in this study are only briefly explained.

1.6 Organization of Thesis

Systematical of thesis writing is organized in order to make this research more structured and easy to be read. Therefore, the research has six chapters as follows:

First, chapter one is introduction which explains about research background, problem statement, objective, significance of research, scope of the research.

Then, literature review will elaborate the empirical and theoretical study in chapter two. Empirical study is primarily important to determine the literature study of the previous research. Theoretical study suggested the basic supporting theories. Literature review contains both concept and basic principles that needed to solve research problems. It also includes a description of the studies result that has been performed before by other researchers that related with the research undertaken.

Chapter three is research methodology that explains the steps for conducting the research in order to keep researcher focused on the objective of this research. This chapter explains the detailed object and research's focus as well as the conceptual model of the research.

Chapter four is data collecting and processing described the data collection and processing, analysis and results, including images and graphics obtained. This chapter is a reference for the discussion of the results that will be written in Chapter five.

Moreover, fifth chapter explains the discussion about the result of the previous chapter. In this chapter, there will be the core discussion in order to get a comprehensive understanding about the whole research.

Finally, chapter six is conclusion and recommendation that concludes the overall result of the research and show the suggestion. Suggestion related to the current study in purpose of the advancement in the future research is given based on the limitations of the current research. After the research summarized and recommendation provided, the next part will contain References and Appendices.