



International Journal of Multidisciplinary Research and Growth Evaluation



International Journal of Multidisciplinary Research and Growth Evaluation

ISSN: 2582-7138

Received: 03-01-2021; Accepted: 07-02-2021

www.allmultidisciplinaryjournal.com

Volume 2; Issue 1; January-February 2021; Page No. 435-437

Implementation of supplier relationship management on MSMEs in Indonesia

Reza Wahyudi ¹, Vania Stephani Bangun ², Iskadar Muda ³

¹⁻³ Universitas Sumatera Utara, Indonesia

Corresponding Author: **Reza Wahyudi**

Abstract

This research aims to find out how to build good relations with external parties in terms of importing raw materials and also for the supplier relationship is one important type of cooperation between and among firms. Supplier relationship management (SRM) is a part of the overall supply chain management process. Over the past several years, there has been a significant shift in the way organization approach supplier relationship management. Recent years have seen an increased interest and involvement in the partnership model. Several authors said that partnership will deliver superior performance. In a number of previous studies, the application of this SRM has been shown to have an influence on company performance. However, research related to SRM that has been carried out has generally only been carried out on large

companies. Even though, The economy in Indonesia is still very much dominated by micro, small and medium enterprises (MSMEs). Given the differences in the pattern of purchasing relationships between buyers and suppliers in large and small companies, this study was conducted with the aim of exploring the role of SRM implementation on supplier quality and MSME business performance in Indonesia. From this research, it is also expected to produce suggestions related to SRM activities that can be implemented by MSMEs so that they can improve the quality of suppliers and their business performance. This study provides the results that the practice of SRM simultaneously has a significant influence on supplier quality, and supplier quality has a significant effect on the performance of MSMEs.

Keywords: Supplier Relationship Management

1. Introduction

The relationship between the company and the supplier, which is the activity of the purchasing function, is an important form of cooperation between several companies. As stated by Kanter (1994), the company's relationship with suppliers is the strongest collaboration in the context of the value chain or supply chain. In this context, suppliers play a role in supplying materials used in the company's production process. The quality of materials and the ability to deliver materials to manufacturing companies are influenced by supplier performance which in turn has an effect on overall company performance. For this reason, several companies have begun to focus on Supplier Relationship Management. In an environment that has intensive competition, SRM is an alternative strategy to achieve competitive advantage. In a number of previous studies, The application of this SRM has been shown to have an influence on company performance. Companies that are able to improve the process of purchasing or procuring goods which include quality, price, and service from suppliers will be able to improve company performance ^[18]. However, research related to SRM that has been carried out has generally only been carried out on large companies. In fact, the economy in Indonesia is still very much dominated by micro, small and medium enterprises (MSMEs). Based on data obtained from the Central Statistics Agency (BPS), 99.8% of all types of businesses in Indonesia are micro, small and medium enterprises. Meanwhile, large businesses do not reach 0.2% although some researchers state that large and small companies have the same purchasing relationship pattern between their buyers and suppliers, there is a rebuttal regarding this considering that purchases made by small companies are relatively small and unspecialized. Especially in small businesses, there is little attention to the process of purchasing / procuring goods. For some reason, the management of this relationship with suppliers is not sufficiently understood and applied to the majority of micro, small and medium enterprises. Suppliers are often not considered important to business success. MSME actors generally realize the importance of customers for their business, so that business owners only focus on trying to provide service and maintain good relationships with their customers. Even though it is not only collaboration with customers, but managing relationships with good suppliers will also lead to improving the overall performance of a company. This then raises questions about how to implement supplier relationship management in MSMEs. This research was conducted to analyze the implementation of SRM and whether implementing SRM could affect the quality of suppliers and whether by implementing this SRM MSMEs could improve their business performance.

Therefore, this research was conducted to dig deeper into the implementation of SRM in MSMEs and its role in supplier quality & MSME performance.

2. Literature Review

2.1 Supplier Chain Management

Supply Chain Management or supply chain management is a very important part of a company. A good SCM indicates the company's high competitiveness and quality. Supply Chain Management itself is defined as an activity that includes coordination, scheduling and control of procurement, production, supply, or delivery of products or services to consumers. Supply chain management also follows the development of modern technology which the application of SCM can also be used by utilizing internet technology. According to Indrajit and Djokopranoto (2003), "e-SCM is a management concept in which companies try to use internet technology to integrate all company partners, especially those related to the supply system for raw materials or resources needed in the production process."

2.2 Supplier Relationship Management

Supplier Relationship Management is a comprehensive approach to managing interactions between organizations and companies that supply products and services that supply products and services used by the organization. According to Carter, 2003 Supplier Relationship Management "... the process that defines how a company interacts with its suppliers, is just one key part of the overall supply chain management process". Since the 1990s, supplier relationship management has undergone a shift. Quinn (1999) quoted by Shi & Doll (2001) highlighted that the goal of relationships has shifted from simply getting components or raw materials to aiming at increasing expertise and transfer knowledge. This statement is in line with the recommendations of academics who advise practitioners to change their relationship with suppliers to one that is collaborative and long-term. This is based on empirical evidence conducted by several researchers (Stuart, 1993; Dyer & Ouchi, 1993; Ellram & Edis, 1996; Wong, 2002). These studies conclude that partnership can be a core competency and a source of competitive advantage. This statement has implications for the company, that to get better the company must build partnerships with suppliers. Regarding SRM activities and adjusted to the conditions of MSMEs, 4 activities will be examined, namely identifying key suppliers, information sharing, decision synchronization, and supplier evaluation.

2.2.1 Identifying key suppliers

Companies need to build cross functional relationships with key suppliers. Conversely, with other suppliers who are not too critical of a vital role for the company, the company can maintain good relations as a regular "seller-buyer". To be able to do this, the company must be able to identify key suppliers.

2.2.2 Information Sharing

Information sharing is a company's ability to interact with its business partners in sharing information in order to develop a common strategy. Information sharing is often used as a dimension in measuring supply chain relationships. This is because the sharing of information is the basis for building a relationship. Information sharing at MSMEs is measured by the exchange of information regarding changes in business conditions, business strategies and obstacles experienced during the cooperation process.

2.2.3 Decision Synchronization

Decision Synchronization (synchronization of decisions) or joint decision making by companies and suppliers allows companies to reduce conflicts in supply chain relationships. Decision synchronization is a dimension that can measure collaboration or a relationship between a company and its suppliers. Decision synchronization shows how well a company can coordinate and make decisions together with its suppliers that can benefit all parties.

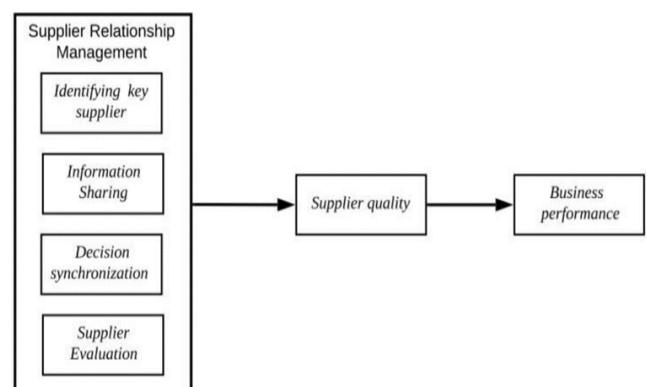
2.2.4 Supplier Evaluation

Supplier performance evaluation is one of the practices in Supplier Relationship Management. Implementation of Supplier Relationship Management plays a role in measuring and monitoring supplier performance results. The results of the supplier performance evaluation can be used as the basis for allocating orders in the future. The benchmarks of a business that has evaluated suppliers well include continually evaluating the accuracy of the number of orders sent, timeliness of payment & delivery and evaluation of material quality from suppliers as well as providing feedback in the form of feedback or rewards to suppliers on a regular basis.

3. Method

This study uses a questionnaire survey method that is distributed online via google form. Based on the determination of the sample using Cohen's theory (1998) and G * Power software, the sample required in this study is a minimum of 129 samples. Questionnaires were distributed to 450 MSME players (annual turnover <Rp. 50 billion) in Indonesia who collaborated with at least 1 supplier. The results of distributing questionnaires obtained 21 responses. Of the 212 responses, 41 responses were eliminated because they did not meet the criteria so that the number of responses that could be used was 171 responses. This data is then processed using PLS-SEM to test the reliability and validity of the model.

This study aims to examine the relationship between SRM activities consisting of decision synchronization, information sharing, identifying key suppliers and supplier evaluation of the quality of suppliers and the performance of MSMEs in Indonesia.



The hypotheses tested based on the research framework above include

Ha1: SRM implementation has a significant effect on supplier quality

Ha2: The quality of suppliers has a significant effect on the performance of MSMEs

- Ha3:** The implementation of SRM has a significant effect on the performance of MSMEs
- Ha4:** The ability of MSMEs in identifying key suppliers has a significant effect on supplier quality
- Ha5:** Information sharing has a significant effect on supplier quality
- Ha6:** Decision synchronization has a significant effect on supplier quality
- Ha7:** Supplier evaluation has a significant effect on supplier quality
- Ha8:** The ability of MSMEs in identifying key suppliers has a significant effect on the performance of MSMEs
- Ha9:** Information sharing has a significant effect on the performance of MSMEs
- Ha10:** Decision synchronization has a significant effect on the performance of MSMEs
- Ha11:** Supplier evaluation has a significant effect on the performance of MSMEs

4. Discussion and Results

This study provides the results that the application of SRM to MSMEs has a significant effect on the quality of suppliers and the performance of MSMEs itself. The results of this study indicate that MSMEs in Indonesia have implemented SRM activities with a range of low performance levels (45%) to quite good (74, 1%) Identifying key suppliers and supplier evaluation have been proven to be implemented quite well by MSMEs in Indonesia, while decision synchronization and information sharing have not been implemented properly because they are still below 50%.

From this research, it can be seen that supplier evaluation has the greatest total effect on supplier quality and MSME performance, so it is suggested for MSMEs to make the application of supplier evaluation a priority. Of the four instruments that measure supplier evaluation activity, the instrument with the greatest effect is EV4 (providing feedback / input). This means that it is important for MSMEs to evaluate supplier performance, but MSMEs must also provide input for improvements to their suppliers. That way, both MSMEs and suppliers will jointly make improvements in their performance. In addition, providing feedback in the form of rewards is also important to do occasionally as a form of appreciation if the supplier has had a satisfactory performance.

This study also shows that the ability of MSMEs to identify key suppliers has a significant effect on the quality of their suppliers. Designing and developing special contracts and conducting long-term cooperation with key suppliers allows MSMEs to optimize the allocation of resources owned by MSMEs to the right suppliers. From this study also found that MSMEs should improve the application of decision synchronization (DS). This is because DS has not been implemented properly by MSMEs in Indonesia. The low application of DS by MSMEs is probably due to MSMEs having less power in influencing suppliers. To overcome this, MSMEs are advised to provide special offers that can provide benefits for suppliers.

This study also shows that information sharing has a relatively low effect on supplier quality compared to the other three variables. Previous research states that information sharing has a significant positive effect on supplier performance. The low effect and application of information sharing is probably due to differences between large companies and micro, small and medium enterprises.

5. Conclusion

Supplier Relationship Management has a significant influence on supplier quality ($\gamma = 0.629$, p value = 0.000) and supplier quality has a significant influence on the performance of MSMEs ($\gamma = 0.392$, p value = 0.000). So it can be concluded that if an MSME implements Supplier Relationship Management properly, the quality of its suppliers will increase as well as its business performance. However, because the amount of variance in the performance of MSMEs that can be explained by SRM and supplier quality is only 15% ($R^2 = 0.151$), while the rest is influenced by other factors outside of this research, so to optimally improve the performance of MSMEs the application of this SRM must be carried out together- the same as other SCM business processes.

Recommendations related to SRM activities that can be applied by MSMEs to improve their performance include designing special contracts and conducting long-term cooperation with key suppliers, always evaluating supplier performance and providing suggestions for improvements to suppliers, and negotiating so that suppliers are willing to carry out joint ventures decision making. Meanwhile, information sharing in this study was found to have a relatively low effect on supplier quality and MSME performance.

6. References

1. Douglas Lambert M. The Eight Essential Supply Chain Management Processes, *Supply Chain Management Review*. Supply Chain Management Review. 2004; 8(6):18-26.
2. Dyer J, Cho D, Cgu W. Strategic Supplier Segmentation: The Next Best Practice in Supply Chain Management. *California Management Review*. 1998; 40(2):57-77. Doi: 10.2307 / 41165933.
3. Ellegaard C. The Purchasing Orientation of Small Company Owners. *Journal of Business & Industrial Marketing*. 2009; 24 (3/4):291-300.
4. Hair JF, Ringle CM, Sarstedt M. PLS-SEM: Indeed a silver bullet. *Journal of Marketing Theory and Practice*. 2011; 19:139-151.
5. Hair JF, Hult GT, Ringle CM, Sarstedt M. A Primer on Partial Least Squares Structural Equation Modeling (PLS-SEM), 2nd edition. Los Angeles: Sage Publications, Inc, 2017.
6. Simatupang TM, Sridharan R. Benchmarking Supply Chain Collaboration: An Empirical Study. *Benchmarking: An International Journal*. 2004; 11(5):484-503.
7. Stank TP, Keller SB, Daugherty PJ. Supply chain collaboration and logistical service performance, *Journal of Business Logistics*. 2001; 22(1):29-48.
8. Vereecke A, Muylle S. Performance improvement through supply chain collaboration in Europe. *International Journal of Operations and Production Management* 2006; 26(11):1176-1198.
9. John Morrissey W, Luke Pittaway. Buyer Supplier Relationships in Small Firms: The Use of Social Factors to Manage Relationships. 2006 24(3):272-298.