

Supply Chain Management for Small and Medium Enterprises at Central Java-Indonesia

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Abstract— The aim of this research is to explore how supply chain management (SCM) of small and medium (SMEs) business gaining successful succession. This study tries to fill the gap in previous studies concerning supply chain effectiveness in SMEs, especially in family business. To gather information, we carried out a series informal individual deep interviews, with key informants of Lunpia Semarang located in Semarang city. Using metafor from mitosis of cell, produced business-mitosis perspective successful succession in third generation of small family business. In this context, the application of the concept of SCM in the operation strategy of SMEs seems to be a very important function. This supply chain also covers all three aspects of sustainable development: business, environmental, and social. The result of study revealed that Lunpia Semarang have three business entities namely Lunpia Pemuda, Lunpia Mataram, and Lunpia Gang Lombok, and each of them is an independent business. Thus it can be concluded that the for gaining a competitive advantage, SCM is an effective tool to SMEs, which to deliver the right product and service at the most opportune time and at the lowest possible cost to the right customer.

Keywords— supply chain management, small and medium enterprises, successful succession, family business, central java-Indonesia.

1. Introduction

The sector of SMEs plays a key role in the economies of all of the countries in the world. One of these SMEs is the family business which entities constitute the basis for the development of the national and global economies. Family Business is the result of a combination of two systems namely family and business [1] that are prone to conflicts of interest [2, 3]. Potential conflicts between family and business can hamper performance of the companies so it is not easy to maintain business continuity [4]. Although most family businesses want the next generation to be succeed [4], it is difficult for family businesses to maintain the existence of the business up to the next generation,

especially when it is in the hands of the third generation [5]. The positive thing from the change of management control to the second and third generation is they are more capable and have a tendency to expand markets internationally by SCM [6].

When family business enters the third generation, business complexity becomes the cause of family business failure, due to changes from demand markets to supply markets, suppliers and more business competitors, and business unpreparedness in dealing with changes in the local to global market [7]. In addition, upon entering the third generation, family business faces challenges to maintain collaboration and effectiveness due to complex family structures with multiple branches of family, diverse interests and stakeholders. Sustainable development initiatives are undertaken by supply chains because of the threats and possibilities that they meet; these are the two main factors affecting the development of sustainable supply chains [8]. It is possible to include crucial factors associated with their outside and inside contexts of functioning among the barriers for the development of sustainable supply chains [9]. Keeping this in mind, the above studies also show the threats and possibilities that arise while implementing the concept of sustainable development in SCM for SMEs [10]. The purpose of this article is to present the current state of the research in the area of managing the supply chains of small and medium-sized enterprises in the context of their sustainable development, and to present the empirical findings within this area.

2. Theoretical Review

The purpose of an efficient supply chain system is to minimize lead time and provide the best quality products at the best possible cost by eliminating all possible waste in the value chain. Succession is a crucial problem in maintaining family business continuity [11], to the point that professional advisors said "family business has only three

problems namely succession, succession and succession". However, [12] in his research stated "survey shows that nearly one-third of all owner-managers over the age of 60 have no available successor in mind". Failure to plan and manage succession properly is the biggest threat to the continuity of family business, however many family businesses approach the retirement or death of the founder / top leader without adequate succession planning, which result in only about 13% of the succession of family business successes till at the hand of third generations [13].

In the narrow sense, succession is a transition of leadership and ownership of family business from one generation to the next, while in the broad sense succession is an enduring planning and management process that includes various steps aimed in ensuring business continuity across generations [14]. One of the main reasons for the difficulty of the succession process often comes from the founder, the founder equates business identity with personal identity, which expresses personally the capabilities, priorities and values of the founder [15].

In addition, the reluctance of the founder to fully surrender the power he holds to others, because the tendency has not been able to recognize the ability of his successor [16], which raises generational shadow problems [17]. Even in the case of The Prince Charles Syndrome, it resulted in the loss of a generation toward leadership baton. Thus, the toughest test of a CEO is how to choose the right successor who can run his company [18].

In [19] suggest that succession of successful CEOs is a crucial goal for family businesses, without direct management and leadership of the next generation, the company cannot survive as a family business, if the owner of the family business firm wants his company to remain under the direction and ownership of the family, then SCM being a crucial strategic issue, potential successors must learn to earn benefit from family values and special skills to develop their own expertise.

The SCM field is continually evolving and developing [2]. It represents a strategic shift in a company's fundamental principles and culture, and extends to company's partners to deliver a common goal of optimization and efficiency. In today's dynamic business environment of free trade and globalization, cost effective SCM is a matter of survival as obtained goods and services account for up to 80 percent of sales revenue. Despite knowing

the benefits of SCM planning and implementation, many family business owners withhold succession plans [20].

3. Research Methodology

This study uses qualitative research methods, with a grounded theory research design that will produce a mini theory. By using a natural setting to interpret the phenomena that occur, in-depth interviews, participatory observations, and document studies are carried out in order to achieve triangulation. The study was conducted at three Lunpia Semarang business sites in the city of Semarang. The first location (Lunpia Pemuda), with key informants Siem Siok Lien and owner of Lunpia Pemuda Mbak Lien from the fourth generation of Lunpia Semarang. The second location (Lunpia Mataram), with key informant Tan Yok Kie, from the fourth generation and one of the owners of the Lunpia Mataram that was located at Kampung Baris. The third location (Lombok Gang), with key informant Purnomo, from the third generation of Lunpia Semarang and owner of Lunpia Semarang that was located at Gang Lombok. SCM for SMEs as a set of business activities including purchasing from the open market, manufacturing or processing of sub-components within the plant, and delivery to large enter-prises using hired transportation to enhance value of end product and in turn to ensure long-term regular purchase orders

4. Discussion and Analysis

Supply Chain Management (SCM) in SMEs

Supply chain management in SMEs is an approach that helps the organization to function in a more agile and cost effective manner by integrating the processes of various partners at all three levels – strategic, tactical, and operational. Even though globalization has increased pressure on some SMEs to continually reduce their prices against their quality and services, SCM can improve the performance of SMEs and increase their profitability by enhancing their ability to obtain supplies of the right quality, at the right time, and at the most favored prices. Referring to cell-mitosis, researchers used a metaphorical approach to compare cell life and business life. There are thirteen variables with business-mitosis characteristics which are metaphors of cell mitosis, namely planned regeneration, family unity, timeliness of business leaders regeneration, communication between business actors, business-

to-business agreements, commitment, protection orientation, transfer of tacit knowledge, initial investment, business leadership oneness, business independence, distinctive capabilities, and dynamic capabilities. To illustrate the thirteen variables in

relation to see the process happened when the third generation of Lunpia Semarang succeeded to keep the business although across generations, a metaphor from the cell cycle was also used.

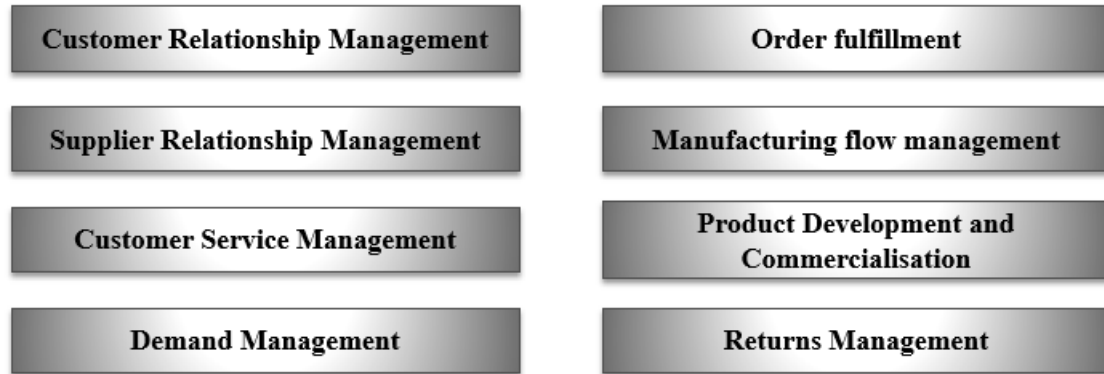


Figure 1: SCM process in SMEs

Lunpia Semarang (second generation) conducts business-mitosis into two new business entities namely Lunpia Pemuda (third generation) and Lunpia Semarang (second generation) in supply

chain process. Figure 2 shows an illustration of the first stage of business-mitosis.

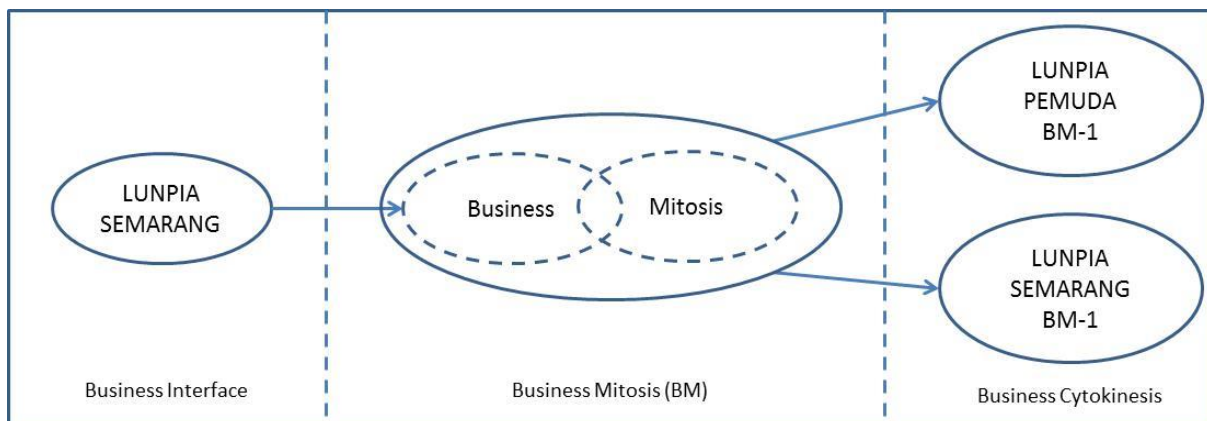


Figure 2. First Stage Business-Mitosis of Lunpia Semarang

The first stage of business-mitosis results showed that Lunpia Semarang produced two new business entities namely Lunpia Pemuda and Lunpia Semarang. Although from the business-mitosis result, one business entity uses the same name Lunpia Semarang, but its existence between Lunpia Semarang (which conducts business-mitosis) and Lunpia Semarang which the result of the first stage of business-mitosis (Lunpia Semarang BM-1) is a different business entity.

After succeed in the first stage of business-mitosis, Lunpia Semarang which the result of the first stage of business-mitosis was conducting the second stage of business-mitosis. Figure 3 shows an illustration of the second stage of business-mitosis.

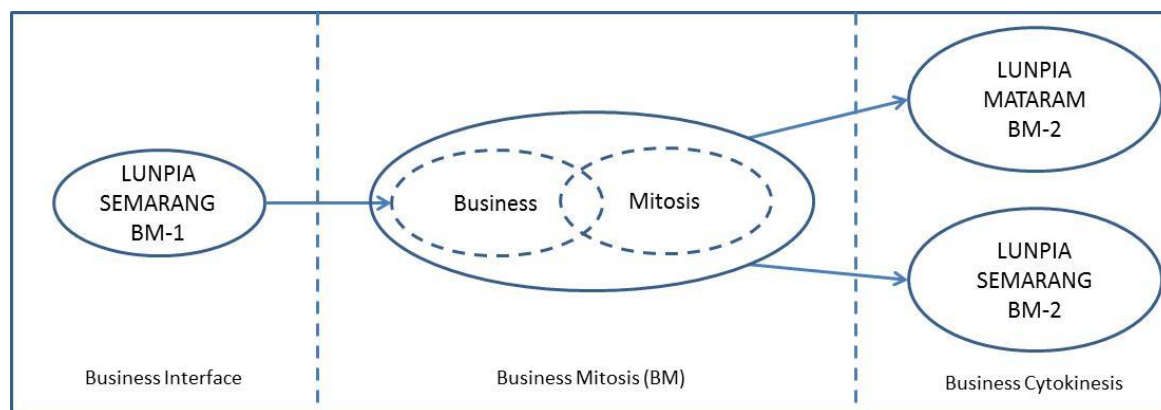


Figure 3. Second Stage Business-Mitosis of Lunpia Semarang

The result of second stage of business-mitosis produced two new business entities namely Lunpia Mataram (third generation) and Lunpia Semarang (second generation). Even though from the result of this business-mitosis, one business entity uses the same name Lunpia Semarang, but its existence between Lunpia Semarang which conducts second-stage of business-mitosis (Lunpia Semarang MB-I) and Lunpia Semarang which the result of second-stage of business mitosis (Lunpia Semarang MB-II) is a different business entity. After the death of Siem Gwan Sing (second generation owner of Lunpia Semarang), Lunpia Semarang BM-II has switched to the third generation and better known as Lunpia Gang Lombok.

After conducting the first and second stages of business-mitosis, thus the big family of Lunpia Semarang have three business entities namely Lunpia Pemuda, Lunpia Mataram, and Lunpia Gang Lombok, and each of them is an independent business. From the first and second stage of the business-mitosis process, it appears that the thirteen variables have colored the transition process from the second to the third generation of Lunpia Semarang. The thirteen characteristics are very identical with the characteristics of cell mitosis, so we named it as business-mitosis. Thus it can be concluded that the succession process to the third generation of Lunpia Semarang using the pattern of business-mitosis.

Business-mitosis is one of the succession process that has been proven to be successfully implemented by the Lunpia Semarang family-business venture in an effort to maintain the existence of Lunpia Semarang business in term of transition from the second to the third generation. Business-mitosis requires the orientation of interests of family members to focus on protective orientation, which leads to income to maintain

family needs, including non-monetary rewards such as social status, self-esteem, time fills, etc. To create jobs and income for the benefit of the family, They are not interested in developing a large company, because the main goal is to maintain a stable situation, according to their own needs and their families. Business actors for these business-mitosis tend to adopt "small is beautiful" business approaches, because the strategy they choose tend to be categorized as market niche strategy [21]. This research is focused on the SCM in SEMs especially on family byssinosis for the case studies in Indonesia.

5. Conclusion and Future Research

We examine different SMEs such the family business functions (production, marketing and sales, purchasing and logistics, research and development (R&D) and finance) within a supply chain partnership. We collected data for family business in Central Java-Indonesia and investigated their success through the SCM implication. The strategic supply chain planning in SME is considered the responsibility of top management or of the owner and is done only for short term. SCM can help SMEs to establish better relationships with their customers. SCM systems offer huge process, customer satisfaction and direct cost reduction potential for SMEs. Without proper SCM strategy, action plan and processes, SMEs will lose business to competitors who have already implemented SCM. Next researcher needs to be further investigated how the implementation toward business, especially family business.

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