CHAPTER 1

INTRODUCTION

A. Background

Batik is an inherited cultural tradition with great aesthetic value and a rich philosophical foundation (Girsang, 2021). Internationally renowned as a historical component of human culture, Indonesian batik was added to UNESCO's Intangible Cultural Heritage of Humanity list in 2009 and has been internationally recognized as a historical fabric of human civilization. Historical evidence suggests that it has been used in some regions of Africa, Asia, and the Middle East for more than 1000 years. Additionally, batik is one of the patterned fabrics that must be worn as part of the official dress code for government employees and students on specific days in Yogyakarta. People in Yogyakarta now wear it as a fashion trend when attending formal events and casual outings (Prahmana & D'Ambrosio, 2020). This implies that if the batik sector earns much demand, its financial performance will continue to improve (Sumani et al., 2022).

In this sense, culture is viewed to play a role in governance as a product, institution, or creativity from post-development views. This may help transform traditional wisdom and recreate new roles for the state-led poverty alleviation effort and new rural construction (Z. Chen et al., 2021). When the production chain is stable, batik as an industry will continue. However, if suddenly, when the current supply chain management configuration can no longer guarantee success, the release phase begins. Customers further down the supply chain

management experience this when they want product innovation and stop wanting to purchase items from the previous line (Wieland, 2021).

Therefore, it is significant in improving total quality management can growing the business, facing competitive challenges, and continuously improving customer-focused business activities. When a total quality management isn't enough to satisfy customers, an effort must be made to provide the proper product quality, boosting consumer contentment (Mangasi et al., 2021). Total quality management associated with continuous improvement is carried out by many companies to drive market increases and win the competition (Saragih et al., 2020). Companies that manage those changes will be included. In line with the organizational paradigm shift from market-oriented to resource-oriented, one way that companies can take advantage of this is to improve the quality of their products so they can survive in long-term competition (Rita & Dolfriandra, 2020). Subsequent, TQM defined as a philosophy and a set of guiding principles representing the foundation of a continuously improving organization. It is the application of quantitative methods and human resources to improve all the processes within an organization and exceed customer needs now and in the future (Besterfield et al., 2012).

In today's business environment, characterized by rapid developments in information and communication technologies, knowledge management capabilities are a valuable source of innovation (Hock-Doepgen et al., 2021). Business environment has pushed micro, small, and medium enterprises

(MSMEs) towards sustainability by focusing on dynamism (Azudin & Mansor, 2018). Business environment refers to Labor cost, avaibility of labor, competitive hostility, dynamism, and location (Corbett, 2008; Feng et al., 2018; Yu & Ramanathan, 2012). In this case, it is proof that business environment is a driving force to promote entrepreneurship (Khan & Netek, 2019). Theoretical perspectives such as institutional and resource dependency theories show how the business environment affects organizational performance (Gregory & Macnamara, 2019).

An organization's performance is measured in five areas: punctuality, delivery cost, implementation of SOPs, inventory, and delivery (Feng et al., 2018; Sharma & Modgil, 2020). Reducing costs and improving daily operations' efficiency are the primary goals of operations (Sharma & Modgil, 2020). For businesses, operational performance is crucial because it enhances the efficiency of manufacturing processes and yields high-quality goods (Truong et al., 2017).

According to (Sharma & Modgil, 2020), further research is needed to explore the mediating role of the business environment in the relationship between SCM and operational performance. The business environment can amplify or limit the impact of SCM. For example, efficient SCM can improve operational performance in an environment that supports growth, such as high demand for batik products and favorable regulations. In contrast, the benefits of SCM may be limited in environments with low demand or tight regulations. Next mediating Role of supply chain management to operational performance

mediated by TQM show that TQM directly influence SCM, thereby improving operational outcomes. Integrating TQM with SCM ensures quality across the supply chain, from raw material procurement to product delivery. TQM activities, such as quality checks, employee training, and customer feedback loops, enhance the efficiency and effectiveness of SCM procedures (Sharma & Modgil, 2020),

Research shows that gaps in supply chain management are created by collaboration between the textile and clothing sector with suppliers and customers, which creates strong SCM and increases operational effectiveness (Maulina & Natakusumah, 2020). According to Sharma & Modgil (2020), strategic planning involves using various strategies to offer good quality at affordable prices. Dual sourcing increases competition and lowers prices, while selective sourcing can have a negative impact on SCM. Stategic supplier partnerships, information sharing, and quality performance can improve SCM. SMEs in developing countries need to understand the importance of supplier partnerships to obtain the necessary inputs (Jermsittiparsert & Rungsrisawat, 2019).

Identifying research gaps through an extensive analysis of previous studies. This research gap investigates the interrelationships and effects of TQM on operational performance. Last studies say a detailed examination of earlier studies revealed that TQM positively impacts operational performance (Sharma & Modgil, 2020). Total quality management, inventory management, time-related variables, and competitiveness are used to gauge operational

performance (Youssef, 2018). According to a different study (Tortorella et al., 2020), total quality management approaches only sometimes result in noticeably better performance from manufacturers. In fact, our investigations showed that organizations that support the development of its dimensions may significantly enhance their operational performance when applying comprehensive quality management approaches. That is consistent with findings from the sociotechnical systems theory, which contends that manufacturers can improve performance levels by developing technical components represented by total quality management methods and socially defined by learning organizational development components (Tortorella et al., 2020).

The business environment gap refers to the report of significant positive correlations between several practices (Internal environmental management, information systems, purchasing, cooperation with customers, eco-design, and investment recovery) and operational performance within the framework of their structural model (Inman & Green, 2018). According to another study, a positive corporate climate is associated with improved operational performance. It is possible for businesses to coordinate supply and demand to optimize their production plans efficiently, increasing production flexibility and delivery performance (Žic & Žic, 2020). Building demand and supply information also enables businesses to resolve conflicting objectives with customers and suppliers. Further, it encourages collaboration to reduce costs and improve product quality. Several research have supported the favorable

relationship between the company environment and operational success (Liu et al., 2021).

Most existing studies have focused on larger organizations or different industries, neglecting the unique challenges and dynamics Batik SMEs face in Yogyakarta. Therefore, this study aims to bridge this research gap by investigating the interrelationships and effects of SCM, TQM, and the business environment on operational performance in Batik MSMEs. This chapter comprehensively reviews the relevant literature on the influence of SCM, TQM, and the business environment on operational performance. Exploring existing research, theories, and conceptual frameworks establishes the theoretical foundation for the subsequent chapters. Furthermore, it identifies the research gap in the specific context of Batik MSMEs in Yogyakarta and justifies the need for the present study. The following chapters will delve into the research methodology, data analysis, and findings, contributing to the body of knowledge in this field and providing practical implications for Batik MSMEs and other similar industries.

Yogyakarta is renowned as one of the centers of batik production in Indonesia, which is why the thesis is titled The Influence of Supply Chain Management, Total Quality Management, and Business Environment on Operational Performance (Study at Batik MSMEs in Yogyakarta). It significantly advances knowledge of the variables influencing business operational performance in this area by concentrating research on MSMEs engaged in the Yogyakarta batik sector. The local community will find this

research to be pertinent and helpful. Additionally, through this research, The writer can contribute to understanding best practices in supply chain management, total quality management, and business environment adaptability. This study's findings might be a reference source for businesses, government, and academic stakeholders.

B. Research Questions

From the background above, several problems can be formulated as follows:

1. Does Supply Chain Management have a positive effect on Total Quality Management?
2. Does Supply Chain Management have a positive effect on Operational Performance?
3. Does Supply Chain Management have a positive effect on Business Environment?
4. Does Total Quality Management have a positive effect on Business Environment?
5. Does Total Quality Management have a positive effect on Operational Performance?
6. Does Business Environment have a positive effect on Operational Performance?
7. Does Supply Chain Management have a positive effect on Operational Performance mediated by Business Environment?
8. Does Supply Chain Management have a positive effect on Operational Performance mediated by Total Quality Management?

C. Purpose of Study

Based on the background and research questions, the objectives are obtained problems in research as follows:

1. To analyze the influence of Supply Chain Management on Total Quality Management.
2. To analyze the influence of Supply Chain Management on Operational Performance.
3. To analyze the influence of Supply Chain Management on Business Environment.
4. To analyze the influence of Total Quality Management on Business Environment.
5. To analyze the influence of Total Quality Management on Operational Performance.
6. To analyze the influence of Business Environment on Operational Performance.
7. To analyze the influence of Supply Chain Management on Operational Performance mediated by Business Environment.
8. To analyze the influence of Supply Chain Management on Operational Performance mediated by Total Quality Management.

D. The Benefits of The Research

The benefits of this research are:

1. It is a learning tool for writers to increase knowledge and insight about SCM, TQM, and business environment applications to batik.
2. As one of the reference materials, references and information for future researchers at the Muhammadiyah University of Yogyakarta Study Program Management.
3. To serve as a source of inspiration for students who want to be entrepreneurs in developing creative industries in their regions.