

CHAPTER 1

INTRODUCTION

This chapter aim in giving a detailed identification of the research topic and to formulate the research problem. Thus this chapter begins with the background which includes the importance of improvement and customer satisfaction, reasons for research in the project selection and management area along with the research implication followed by the problem statement and objectives of the research. Scope and limitation will end the chapter.

1.1. Background

Entrepreneurship has become the primary vision for the majority of people. The growth of enterprises has increase frequently every year. In Indonesia, the enterprises have expected to grow by up to 6 million in a decade (Wibowo, 2015). It has reached 22.6 million in 2006 and potentially recorded to be 26 to 29 million in 2016 (Amindoni, 2015). It proves that the society has a strong desire and eager to start the self-owned enterprise and the competition between the firms tends to be tighter.

Every entrepreneur is competing to be the most leading and successful company. Setting the company's goals is one of the supporting activities to achieve it. It has become an open secret that to gain the company's goal which to optimize the revenue, the customer satisfaction is the primary key. The greater customer satisfaction will give a higher company's achievement as its support the company to adhere between its competitors because customers is the important stakeholders in the organization and their satisfaction has to be prioritized toward the management (Agbor, 2011).

The rapid increase of industrial growth has made the industry to become highly competitive and in this case, the customer satisfaction is important. There is a significant relationship between the customer satisfaction and return on assets. The customer satisfaction can be reached by increase the quality and it led to the increase of loyalty and positive image of the industry which strongly related to profitability. Customer satisfaction is the key factor of successful industry (Lee *et al*, 2016).

Customer satisfaction has widely used as an indicator in company's efforts to measure and indicate the customer's loyalty. It has been assumed that highly satisfied customers are good for business. The high customer satisfaction generated a huge demand and it points to the relationship between customer satisfaction and customer profitability. It is also indicates that a high customer satisfaction will increase the rank of the company's brand between the competitors (Keiningham *et al*, 2014).

Every enterprise will be challenged to become innovative, adaptive and develop in order to survive in the business which related to increase the customer satisfaction toward the company. It means that improvement is an obligation for every company. Improvement can be done in various fields based on the company's current situation and issues. (Basu, 2009).

Whether the customer satisfaction is difficult or not difficult to be fulfilled, the optimization of it will always leads to the improvement in the organization. Continuous adaptation, continuous development and continuous innovation are the necessities for every company to be enabled to survive in the competition (Ali *et al*, 2013). All of them are leading the company to the continuous improvement.

For manufacturing company, the improvement can be done by reducing waste and improve the product's quality. For service industry, the improvement can be done by improve the service quality. The better service quality can be indicated by the decrease of service lead time, improve the equipment, better trained employees. The improvement can lead to reduction in cost, higher efficiency and increase of the customer satisfaction and revenue.

There are many techniques and methods to delivers the continuous improvement in the organization. But that fact does not direct the implementation of continuous improvement to produce the expected result or even sometimes it fails to deliver result. The causes of these failures can be caused by an inappropriate application of the improvement technique.

Improvement can be defined as a collection of activities which compose the processes to achieve an improvement on the performance. These activities mainly involve the enhancement on production process through elimination of waste in manufacturing while in service industry, these activities involves the enhancement on the customer service through the greater empowerment of individual employees. The implementation of improvement in an organization is

not simple and involves management support and training along with the change of organizational culture that focus on customer satisfaction (Ali *et al*, 2013). The sustainability of improvement is a very critical factor besides its implementation. In this case, the improvement can be classified as a project based on the project characteristic which the project goes through distinct and identifiable phases (Hamilton, 2001).

Therefore the appropriate project selection technique in improvement is a critical factor in the execution of the company's goal. While the improvement project selection is a complicated and multi-faceted decision making, it will become more complicated as the organizational size is higher and the number of potential projects increases. (Kornfeld and Kara, 2011).

There can be only one improvement needed by the firm, but it has the extremely higher probability by the firm to have more than one improvement project. Generally, it is not possible to implement all of the improvement projects simultaneously and it is the reason why the organizations have to select a subset of improvement project while it can impact the organizational performance. The selection of the improvement project can be classified as the multi-criteria decision making and it has many varieties of techniques and methods. The determination of the decision making techniques is a crucial phase because it can impact on whether the expected organizational outcome is fulfilled or not.

One of the popular decision making techniques is analytic hierarchy process or AHP which first developed by Thomas L. Saaty in 1970s. It is a tool for dealing with complex, unstructured and multiple-attribute decisions. It has a wide variety of usage since its initial development (Sipahi and Timor, 2010).

AHP can reduce the risk of making a wrong decision by providing the decision maker with the decomposition of the decision problem into a hierarchy. Using the hierarchy, it will be easier to comprehend the sub-problems and each of them can be evaluated independently. The component of the hierarchy can be related to any aspects of decision problem (Zolfani and Antucheviciene, 2012)

The selection using AHP techniques can give a result in the form of the priority for each improvement project. Therefore, the highest priority project is assumed as a project with the primary improvement to be implemented. Just selected the improvement project is not possible to give any impact to the organization. The final result is strongly influenced by the implementation in the organization. The

project management is required to achieve the higher rate of success in implementation and bring clear information of the project to the team members and to determine the available resources. The project management is required leadership and management skill in the organizations. Every step in the project management is the benefit of it toward the organization while it also could bring a greater efficiency by organizing the workload (Alpert and Hartshorne, 2013).

The importance of customer in the business sector has made it crucial to always conduct the development to increase the customer satisfaction. It has been always a need to listen to the customer, to fulfill what they need and know what they want. It will help to support the company by create a positive image and news of the company toward the society. Thus can be a beneficial support for the company's survival in the highly competitive market. Increasing the customer retention can be obtained by the improvement in various field or the continuous improvement in the company.

Every company work hard to win the hearts of customers by satisfying them and become the loyal customers toward the company which can increase the sales and profit. Customers often choose the brand when they have a good perception with that brand because they form the preferences relative to the perception and attitudes. In this case, a research is needed to determine the improvement project which leads to higher customer satisfaction.

The multiple choice of improvement project based on the customer often occurs and it makes the selection of the improvement projects is a crucial activity because it can bring a strong impact to the company. The research in selection process will bring a better and optimum result which is vital for the company.

Although the selection is bringing the great impact to the future of the company, but it will be unnecessary without an implementation. There are some possibilities which can direct the implementation to a failure and to reduce this risk, a project management is needed. A successful implementation of the improvement tends to be crucial and important to determine the sustainability of the company. A research in project management is needed to determine the phase and optimum result in the implementation.

This study focused on developing the conceptual framework improvement project on service industry corresponded to the customer satisfaction which is a key factor on the sustainability of the organization. The improvement project is

directed to the project management to reduce the risk of the failure in the implementation. The first step on the project management is the project selection to evaluate the priority of the improvement project in the organization. The second step is the project initiation to present the detail description of the project and to observe the term of references on the project implementation. The third step is the project planning to ensure the workload and resource allocation on the project implementation.

1.2. Problem Statement

Several researchers have successfully conducted the studies in the project management for many project areas include the small and large scale project (Doherty, 2010; Tynan *et al*, 2010; Maddalena, 2012; Browning and Ramasesh, 2015). However, the studies in the project management in service industry are still few and none of them have corresponded of the customer satisfaction as the basis of the project. Furthermore, the improvement of customer satisfaction in service industry always directed to an improvement on customer service, while there are still many factors which may affect the customer satisfaction rather than the customer service depend on the industry field. In addition, this research proposed the improvement as the project in service industry with the customer satisfaction as the basis.

1.3. Objectives

The research aims developing the conceptual framework for improvement project in service industry in the response to needs of enhancement in customer satisfaction as the main parameter in the sustainability of the organization. The specific objectives to achieve this main goal are identified as follows:

- a. Describe the fundamental of the improvement project on the service industry in response to the customer satisfaction within the organization.
- b. Develop the scheme or structure of improvement project in the basis of customer satisfaction on service industry.

1.4. Scopes and Limitations

The research has several limitations as described in the following issues:

- a. This research develop the conceptual framework on service industry with the small sample size of SMEs which is the karaoke industry located in Makassar city as the sample to represent the service industry.
- b. The project selection to generate the priority of the improvement project adopted the Analytic Hierarchy Process approach developed by Saaty (1980) and the project initiation and planning adopted from Westland (2016).

